PRIVATISATION OF PUBLIC SECTOR UNDERTAKINGS IN INDIA - A CASE OF AUTOMOBILE INDUSTRY

ABSTRACT

THESIS

SUBMITTED FOR THE AWARD OF THE DEGREE OF

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IN

COMMERCE

BY

MOHAMMED FIROZ ALAM

UNDER THE SUPERVISION OF

PROF. M. MUSHTAQUE AHMAD

DEPARTMENT OF COMMERCE
ALIGARH MUSLIM UNIVERSITY
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A B S T R A C T

Industrialisation, specially after the Industrial Revolution in West European countries, came to be recognised as a means of modern living. Thereupon, a number of countries started making planned efforts towards attaining the objective of better ways of living. Industrial Policies were evolved by the countries, after taking into account the socio-economic and political conditions. The Industrial Policy of any nation is basically composed of two components - one is the philosophy of a given society to shape industrial growth and the other is the implementation which gives practical shape to the philosophy of the society. It can broadly be classified into (i) Capitalist System (ii) Socialistic Approach and (iii) Mixed Economy Approach.

The First World War caused vulnerability to the Indian economy and the government resolved to examine the industrial policy. Lord Hardinge, on November 26, 1915, wrote to the Secretary of the State, 'it is becoming increasingly clear that a definite and self-conscious policy of improving the industrial capabilities of India will have to be pursued after the war.' This led to the appointment of the Indian Industrial

Commission in 1916. The pace of industrialisation was, however, not upto the mark to meet the grave challenges posed by increasing population of the country and the low per capita income. Infrastructure in fact, needed the pivotal concern of the policy makers. The Russian revolution of 1917 also brought about economic revolution in the whole world. USSR made rapid industrial strides though it was all through regimentation, suppression and appression. A large number of countries copied Russian model of development while many others who followed 'Mixed Economy' pattern in the name only also sided with Soviet Russia. Thus, the world came to be divided into Capitalist and Socialist blocs. The socialist governments took all important economic activities under their control and practically left nothing to the private sector. The Indian National leaders in their freedom struggle had educated the masses about the colonial exploitation and contemplated faster rates of growth of industrialisation for achieving speedy development. After Independence in 1947, therefore, the government of India, following Russian pattern of development, took all such steps which brought all effective means of production and distribution under government control and regulation.

With the passage of time all the PSUs in all the countries became inefficient because these countries enacted legislations favouring the work force. In the ultimate analysis, the governments lost millions and billions of dollars in the forms of not getting adequate returns on the capitals invested because of under utilisation of capacities, strikes, manhours lost, low productivity, shrinkage in excise duty and tax income to the exchequer etc. Besides, the SOEs created structural distortionsin the economies of a number of countries, leading to many crises. Involvement of political parties made things so complicated, that almost all the SOEs, except for a few, became white elephants for their respective governments which ultimately placed them into private hands. Indeed, the process of privatization has been crisis-driven all over the world through the reasons behind, objectives to be attained and concerns of the political parties with respect to privatization in different countries have not been very much different .

In terms of the IPR of 1956. PSUs were accorded 'commanding heights' and all important activities at the national level were entrusted to them while at the state level such activities were undertaken by the SLPSUs. It continued to be considered

as 'Economic Constitution of India' and dominated in country's industrial scene till the end of the Seventh Five Year Plan. The field for the operation of the private sector was confined to the unorganized small and tiny sector where individuals could enage themselves in petty shop keeping or trading and manufacturing on a very small scale. For encouraging small scale industries the Government reserved certain items which could be produced only by the small-scale sector.

The terms 'Public Sector', 'Public Enterprises' 'Government Undertakings', 'State-Owned Enterprises' and 'Public Sector Undertakings' are used synonymously. In France Public Enterprises mean industrial and commercial undertakings of Government. In USA, Public Sector means all government agencies which are engaged in providing specific goods and services. In U.K. Public Corporations are the Public Enterprises. In Italy, Public Enterprises are those which are run either by local bodies or by Statement Government.

Late 'Eighties' and early 'Nineties' witnessed such unprecedented changes in the world which nobody could have even dreamt of. Dismemberment of USSR, demolition of Berlin Wall and reunification of the two

Germanies are but a few outstanding examples of such changes. In view of these sweeping changes India, as many other countries of the world, passed the Industrial Policy Amendment Act of July 24, 1991 and declared NIP. The basic philosophy hidden behind this policy is summarized as 'continuity with changes'. The government took a series of initiatives in respect of the policies related to the areas : (a) Industrial Licensing (b) Foreign Investment (c) Foreign Technology Agreement (d) Public Sector Policy (e) MRTP Act (f) Small and Tiny Sector.

In relation to the Public Sector Undertakings the NIP clearly stated that in order to raise resources and encourage wider public participation a part of the Government's holdings in the public sector would be offered to the mutual funds, financial institutions, the general public and workers.

The worthwhileness of the PSUs in India had been a bone of contention from the very beginning. Some of the PSUs which earned huge profits were actually monopoly profits and due to inter-government departmental transfers rather than their efficient performance in the real sense of term while the aggregate sum of money invested in them amounted to Rs. 1,78,628 crores as on March 31, 1996.

While commenting on the performance of any business organisation financial aspect comes to the force. Though a number of PSUs are not business concerns in the strict sense of the term but their financial aspect can not be ignored. In a mixed economy where private sector is also allowed to operate and compete with PSUs simultaneously this aspect occupies all the more importance. Judging against this background, financial performance of a large number of PSUs has not only been satisfactory but majority of them have proved to be an utter failure.

After the implementation of a number of liberalisation measures, situation has radically changed even for those PSUs which had been earning profit mostly either because of their monopoly rights or under government protection. Again the years 1993-94 and 1994-95 were the boom years for the Indian economy as a whole. During these two years many of the loss-making undertaking have also shown profits. The situation for 1995-96 and 1996-97, for which the data are not available, will surely be quite different.

In order to be fair and objective it would be necessary to take into account the obligation of Public Enterprises which transcends the concepts of production

and profits. Given that, the performance of public enterprises either at micro or at macro level, has to be evaluated keeping in view the contributions made by them in discharging their socio-economic obligation, development of backward regions, provision of public utility services, selling basic inputs or products at administered prices etc. There is no denying the fact that all this has been possible despite several handicaps from which Public Enterprises suffer such as locational disadvantages in some cases, very high initial capital investments in others, having to do with technology which was not necessarily among the best available, cost of learning and development and presence of large number of sicks units taken over from the private sector etc. All this may be true but the costs involved in the PSUs far outweight than the benefits.

The government could not curb enormous wasteful expenditure, put an end to the subsidies amounting to billions of rupees and huge PSU losses resulting in large budgetary deficits. To reduce such gaps year after year, the sources of soft loan, available earlier, dried up and most of the borrowing was available only on commercial terms. The intensity of

debt burden can be imagined from the fact that it has gone up to the level of over Rs. 2,02,972 crores uto September 1992 and the internal burden exceeds at about Rs. 3,55,800 crores. It takes more than one-fourth of the GDP to service our external debts. The Government of India had no option but to tighten its belts on PSU losses and non-essential expenditures. Simultaneously, International Aid Agencies had been pressing hard for structural adjustments in the economy so that the country may be able to pay its external debts without much difficulty.

Privatization in the world started from the beginning of 'Eighties', though a few countries started it much earlier, with a view to increase productivity through efficient utilisation of material and human resources, widening the share of ownership of economic assets and getting rid of political entrepreneurs. The champions of privatization were Mrs. Margaret Thatcher of the United Kingdom and Ex-President Ronald Reagon of the United States of America. Globally, privatization has been adopted as one of the major policy instruments. It has been taken up in more than fifty countries ranging over the industrial countries of the West, centrally planned economies of the Europe and

newly industrialized nations of the Asia-Pacific Region. Even the debt ridden nations of Latin America and South Asia, including India, Pakistan, Bangladesh, Nepal, Sri Lanka and a host of third World Countries, have been swept through the wave of privatization.

The Government of India declared New Industrial Policy which opted for radical changes from the policy pursued until then. The NIP, in fact scrapped control through licensing, except in some strategic areas like defence, production of Coal, petroleum oil, drugs and a few luxurious items. It diluted the MRTP Act, 1969 to enable large industrial houses to invest their surpluses and enhance foreign equity participation from 40 per cent to 51 per cent, proposed divestiture of 20 per cent of Public Sharesin some of the PSUs, announced deregulation of a large number industries to free them from the shackles of bureaucratic control,dereserved a large number of items so far reserved for small-scale industrial sector and opened its doors to the foreign firms to encourage competition.

Privatization is specifically defined as the government-initiated transfer of assets, operations, rights and activities from the public to the private sector through a variety of means. On the other hand,

the divestiture of small equity stakes to private sector investors or the sale of shares to mutual funds or other institutions controlled by the government without any significant change in the level of government control or managerial freedom does not constitute privatization. But the process does include contracting out to the private sector those services which had, historically, been performed by the public sector and the provision and financing of new infrastructure projects.

Initially, government of India selected Power Telecom, Banking, Airlines and Oil & Gas sectors for privatization. The process of privatization in India was compared with a number of other countries. In order to facilitate sector-wise comparisons an overall achievement rating was derived from four criteria evaluated on a five-point scale where 1 stood for completely regulated and 5 implied completely competitive. By comparing each sector's performance against a publicly stated objective of the government, it was possible to assign a rating to the present status of privatization in each of these sectors. Then, to benchmark the performance against the global experience, India's overall performance was compared to

those of the economies of six countries two each from Western Europe, the Americas and Asia-U.K. Portugal, Mexico, Argentina, Thailand and Indonesia.

Based on a number of key privatization parameters such as the governments defined objectives, the political will, the timescales involved, the objectives achieved the methods employed etc., India's performance has been very poor. During the last 15 years most of Britains nationalised industries and utilities have been privatised and the total proceeds now exceed $ 95 billion, Argentina collected $ 22 billion while India has been able to raise about $ 3 billion by auctioning off 0.65 per cent of government investments in the public sector in the four rounds of disinvestment that have taken place since 1992. Under the present circumstances, privatization is an economic must but political impossibility because it needs hard decisions.

The present study titled, 'PRIVATIZATION OF PUBLIC SECTOR UNDERTAKINGS IN INDIA - A CASE OF AUTOMOBILE INDUSTRY' is an attempt to examine the need, objectives, methods employed and achievement of targets since the initiation of the process of privatization of PSUs in India. The study is based on secondary sources

of information and, to some extent, on primary sources in the sense that points of view of Government officials, academicians and professionals on different aspects of privatization have also been considered and included in the text without mentioning their names. The study is divided into six chapters.

As industrial development of any country is the outcome of its Industrial Policy, the first chapter deals with the IPRs of 1948, 1956 and subsequent Industrial Policy Statements alongwith the changes brought therein by different governments at the Centre at the time of their rule in the country. It was all the more necessary because the basic document was that of 1948 and the IPR of 1956 was only more refined and sharp in giving all important economic activities to the government grip. Further, IPR of 1956, also used to be called 'Economic Constitution of India' by some nationalists, dominated the Indian Industrial scene till the late 'Eighties'.

Chapter second examines the growth of Central Public Sector Undertakings in particular and State Level Public Sector Undertakings in general right from the initiation of planning process in the country in

1951 to the end of the Seventh Five Year Plan. SLPSUSs have not been discussed in greater details because of two reasons. Firstly, it was not necessary as the States of the country have, by and large, followed the policy of the Central Government in this respect. Secondly, the data in respect of SLPSUs, if collected and analysed, would have been quite unwidely.

Chapter Third dwells upon the performance evaluation of Central PSUs by applying different parameters. In addition to their overall assessment,the chapter also analyses in detail the performance of manufacturing and service group of PSUs separately. It also brings to light the 'top ten' profit-making and loss-incurring PSUs because it is these PSUs which are responsible for more than sixty per cent profits of all the PSUs and account for roughly fifty per cent of the total losses suffered by them.

The Fourth Chapter examines the concepts, objectives techniques, modalities and experiences of different countries in relation to privatisation. It is here that privatization at micro and macro levels has been discussed alongwith a sample of eleven countries selected from the developed West, earstwhile USSR and

developing countries including the newly industrialised nations of South-East Asia and the Asia-Pacific Region. Also, privatization process of India has been compared with six selected countries on a five-point scale.

The Fifth Chapter gives a comprehensive account of Indian Automobile Industry in its historical perspective. Alongwith old and established automobile manufacturers like Hindustan Motor Limited, Premier Automobile Limited, Tata Engineering and Locomotive Company Limited and Mahindra & Mahindra Limited, performance of Maruti Udyog Ltd. has been evaluated. After privatization of MUL in June 1992, a number of reputed international automobile manufacturers like Daewoo and Hyundai Motors of South Korea, Honda Motors and Mitsubishi of Japan, Daimler Benz and BMW of Germany, Frezer Nash and Concept Auto of the U.K. and Ford and General Motors of the USA etc. have signed joint ventures with their Indian counterparts and very soon plan to introduce their fuel efficient vehicles in Indian market which will lead to cut-throat competition. All these things have been discussed in this chapter.

The Sixth and final chapter, as usual, gives summary and findings of the work. Some of the

suggestions given are really very challenging and require strong political will and hard decisions on the part of the government if privatization is to prove success in India. The researcher will feel his labour amply rewarded if this work stimulates further interest among those who are not tired of life and love learning.

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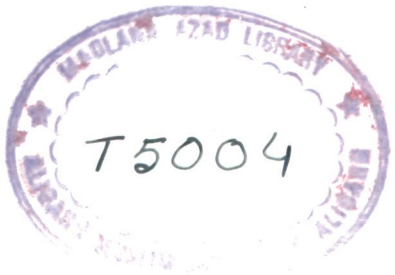
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Prof. M. Mushtaque Ahmad
(Ph.D)
Deptt. of Commerce
Aligarh Muslim University
Aligarh - 202 002
Ph. # (0571) 400661

Res. : 4/1688, Dar-es-Salaam,
Muzammil Manzil Compound,
Civil Lines, Aligarh.
Ph # (0571) 401933

Certificate

This is to certify that **Mr. Mohammed Firoz Alam** has completed his Ph.D thesis entitled **'Privatisation of Public Sector Undertakings in India - A case of Automobile Industry'** under my supervision. To the best of my knowledge, the work is of original nature and suitable for submission for the award of Ph.D. Degree in Commerce.

30/9/97

M. Mushtaque Ahmad
Supervisor

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DATED : 30th September, 1997 **(MD. FIROZ ALAM)**

ALIGARH.

PREFACE

PREFACE

Privatization in the world started from the beginning of 'Eighties', though a few countries started it much earlier, with a view to increase productivity through efficient government revenues, reducing budgetary deficits, widening the share of ownership of economic assets and getting rid of political entrepreneurs. The champions of privatization were Mrs. Margaret Thatcher of United Kingdom and Ex-President Ronald Reagon of United States of America. Globally, privatization has been adopted as one of the major policy instruments. It has been taken up in more than fifty countries ranging over the industrial countries of the West, centrally planned economies of the Europe and newly industrialized nations of Asia-Pacific Region. Even the debt ridden nations of Latin America and South Asia, including India, Pakistan, Bangladesh, Nepal, SriLanka and a host of third world countries, have been swept through the wave of privatization.

On "ominous Monday", October 19, 1987, privatization experienced a trauma in financial markets. It is true that some governments, postponed their plans for the sale of State Owned Enterprises and some big buyers of privatized companies saw the fall of

their shares in value below their original purchase prices, but in the months following the governments did not abandon their privatization programmes.

In fact, phenomenal growth of the state-owned sector since 1960 was more due to the colonial experience where bulk of the economic activities were directed by the foreign administrators. After independence, the motive of the private sector was suspected because of its emergence from foreign control of industrial and agricultural development. Capitalism of the colonial powers gave birth to socialism. State ownership of the sectors was thought to be the only way to preserve economic independence in the face of a perceived threat of neo-colonialism. Many SOEs were direct government initiatives. National security considerations provided a logical basis for governments to intervene in the production and control of 'strategic' goods and services.

In my countries, it was government's idea that the private sector had neither the capital to run the factories efficiently nor the managerial and technical skills to establish new ones, where these industries were especially designed as part of an import substitution programme. Public enterprises with the

prime objective of promoting and protecting the public cause and social welfare activities were set up selectively as per the situation or location. World-wide, at the beginning of 1980s, PSUs were estimated to account for 10 per cent of GDP at factor cost.

Public Enterprises have no definition wich is agreed upon universally. On the basis of the state of the development of a country, control of the means of production and the government's commitment to State ownership, State-Owned Enterprises have taken a wide variety of forms over the years. They are categorized as: (1) Enterprises wholly owned and operated by the State. In some cases are to be capital and/or technology intensive operation which is regarded as essential to economic progress or to national security. (2)Enterprises partially owned by the State and partially by private sector investors : This categoryof enterprises is termed as 'parastatals'.

Initially,it was thought the dominance of public sector over private sector will positively contribute to the speedy development and modernization of the country. Contrary to the expectations, real problems started when take off was achieved. Their

overall performance resulted in a significant contribution to budget deficits, an adverse impact on balance of payments and international competitiveness and a low, even negative rate of return on capital invested. If some of the PSUs earned profits that was more due to their monopoly position or government's protection rather than due to their own efficiency. Consequently, denationalization, a particular form of privatization, started to proceed in both developed and under-developed countries neglecting the politico-ideological persuation.

The concept of privatization is not new. Adam Smith used it as early as in 1762 in his writings. It is defined as the transfer of activity, function or the whole organization from public to private sector. In other words, privatization is defined as the emergence of a new culture in the society which is guided by the competition, marketization and efficiency for a better economic decision making. The activities which are needed for privatization include liquidation, total denationalization, creation of joint ventures, worker's cooperatives, contracting out to private agencies, leasing and financial restructuring.

The closure of Public Enterprises in Africa, divestiture of ownership in U.K., deregulation of economoic order of the USSR under Gorbachov's leadership, debt equity swaps in Latin America and finally the denationalization in Pakistan, Sri Lanka and other Asian countries are the suitable examples of universal appeal of privatization.

Despite the socio-economic and the political ideologies of the governments concerned, the wave of privatization has swept over different parts of the globe. There is an important relationship between the wider issue of economic deregulation and privatization, various aspects of deregulation such as abolition of import controls, price liberalization, deregulation of factor markets, affect directly or indirectly the competitive environment in which the firms operate. The distinction between their nature and effect is clear, but hardly there is logical perception for their connection. However, to identify the separate effects of deregulation and privatization on performance is a very difficult job. On the whole, privatization, liberalization and deregulation must be seen as the efforts to strengthen the State.

OBJECTIVES OF THE STUDY :

One of the main objectives of the study is to discuss thread bare the factors which prompted privatization of PSU throughout the world and India. Experiences of a number of countries ranging from the developed West to earstwhile Socialist nations as well as from developing countries including the newly industrialised nations of South-East Asia and the Asia-Pacific Region are studied in sufficient detail. In Indian context, circumstances which led to the declaration of NIP on July 24, 1991 and a number of economic reforms related thereto and initiated thereafter have been fully examined. Disinvestment of PSU shares, their economic compulsion and political indifference have also been fully discussed.

HYPOTHESIS :

I had to test only one hypothesis regarding the genesis, performance and continuance of the dominance of the PSUs in India. It was, in a nutshell, that PSUs cannot bring about overall speed industrialization, without creating structural distortions in the economy. For this, I had to trace the circumstances of their

origins and factors behind setting up of PSUs all over the world particularly, the earstwhile socialist countries. In doing so I reached the condusion that the origin and growth of PSUs in almost all the countries, and for that matter in India, was alright. With the passage of time, however, their overall performance constantly deteriorated every where with a difference of degree alone. The Governments and the public at large became fed up with them as they consumed enormous public funds with results hardly commensurate with investments sunk in them.

The unprecedented changes witnessed in the late 'Eighties' and early 'Nineties' left no alternative with the Governments except to entrust their PSUs to private hands in different forms. More than fifty countries of the world have either already implemented their privatization programmes or are in the process of implementing them. This, in itself, proves the hypothesis that PSUs, in general, have failed in delivering goods giving way to their privatization every where.

RESEARCH METHODOLOGY :

The data, for the present study, have been collected basically from the secondary sources.

Statistical data on different issues published by the World Bank, International Monetary Fund, Government of India, Bureau of Public Enterprises, Ministries of Finance, Industry and Labour, Reserve Bank of India, Centre for Monitoring Indian Economy, a number of professional bodies such as Federation of Indian Chambers of Commerce and Industry, All India Automobile Manufacturers Association, leading Dailies like the Economic Times, The Financial Express, The Hindustan Times, The Times of India have been studied for latest information on the subject. Detailed discussions with a number of Government officials, exports from different PSUs, professionals and academicians were other major sources of information.

In order to have a clear picture of privatization in global perspective, privatization programmes of different countries have been discussed. Comprehensive and consolidated tables of privatization experiences of a number of nations have been formulated to give a concise picture at a glance.

In Indian context, overall performance of PSUs has been evaluated with reference to their production, sales, profitability and ratios of gross and net profits to capital employed. Assessment of

manufacturing and service groups of PSUs has been separately attempted. No formal questionnaires were prepared as it was difficult to get such questionnaires filled by senior executives and government officials. However, many important issues were personally discussed with them and their viewpoints noted down without mentioning their names.

SCHEME OF WORK :

The present work entitled, 'Privatization of Public Sector Undertakings in India - A Case of Automobile Industry' has been divided into six chapters. Chapter one deals with the IPRs of 1948, 1956 and subsequent policy statements alongwith the changes brought therein by the country. It was necessary because industrial development of any country is the outcome of its Industrial Policy. Further, IPR of 1956, also used to be called 'Economic Constitution of India' by some nationalists, dominated the Indian industrial scene till the late 'Eighties'.

Chapter Second examines the growth of Central Public Sector Undertakings in particular and State Level Public Sector Undertakings in general right from the initiation of Planning process in the country in

1951 to the end of the Seventh Five Year Plan. SLPSUs have not been discussed in greater details because of two reasons. Firstly, it was not necessary as the States of the country have, by and large, followed the policy of the Central Government of SLPSUs, if collected and analysed, would have been quite unwieldy.

Chapter third dwells upon the performance evaluation of Central PSUs by applying different parameters. In addition to their overall assessment, the chapter also analyses in detail the performance of manufacturing and service group of PSUs separately. It also brings to light the 'top ten' profit-making and loss-incurring PSUs because it is these PSUs which are responsible for more than sixty per cent profits of all the PSUs and account for more than fifty per cent of the total losses suffered by them.

The Fourth chapter examines the concepts, techniques, modalities and experiences of different countries in relation to privatization. It is here that privatization at micro and macro levels has been discussed alongwith a sample of eleven countries selected from the developed West, former socialist block and developing countries including the newly industrialised nations of South-East Asia and the Asia-

Pacific Region. The objectives, policy concerns and methods adopted by these countries have also been discussed.

The fifth chapter gives a comprehensive account of Automobile Industry in its historical perspective, alongwith old and established automobile Indian manufacturers like Hindustan Motor Limited, Premier Automobile Limited, Tata Engineering and Locomotive Company and Mahindra & Mahindra, performance of Maruti Udyog Ltd. has been evaluated. After privatization of MUL in June 1992, a number of international automobile manufacturers like Daewoo and Hyundai Motors of South Korea, Honda Motors and Mitsubishi of Japan, Daimler Benz and BMW of Germany, Frezer Nash and Concept Auto of the U.K. and Ford and General Motors of the USA etc. have signed Joint Ventures with their Indian Counter-parts and very soon plan to introduce their fuel-efficient vehicles in Indian market which will lead to cut-throat competition. All these things have been discussed in this chapter.

The Sixth and final chapter, as usual, gives summary and findings of the work. Some of the suggestions, if implemented, will prove beneficial for

the country as well as the consumers. If it happens, I will feel fully satisfied.

REVIEW OF LITERATURE :

The literature available on different aspects of privatization is immense and still growing rapidly. Some of the titles which were selected for the background study are given here. Hanke (1987)[1] and Savas (1987)[2] have discussed the basic theory of privatization practical aspects towards successful privatization, foundations of privatization and planning for privatization while Pirie (1988)[3] has analysed twenty one techniques of privatization. Cook and Kirkpatric (1988)[4] have given detailed accounts of the issues and procedures of privatization and its experience in various African countries, Chile, Malaysia and Singapore.

Ramanadham (1989)[5] has analysed privatization experience of the U.K. as well as seventeen other countries. He has also produced two edited volumes (1992&93) on privatization. In the first volume[6], twenty four contributors have analysed privatization experience of different countries of the world while in the second volume[7] eighteen contributors have examined

the hurdles and impact of privatization on the economies of a number of countries. Gouri and Mohnot have produced two edited Volumes (1991) on the theme of privatization. Contributors to Gouri's book[8] have discussed emerging issues of privatization and its policy parameters with special reference to the Asia-Pacific Region. The country papers review PSU reforms undertaken and experiences of different countries in relation to privatization. In Mohnot's volume,[9] the contributors dwell upon the pros and cons of privatization and suggest an exploratory plan for undertaking privatization in India.

Cristopher (1992)[10] has given a detailed account of economic structure of privatization alongwith many case studies from a number of developing countries. Jugdish Prakash in his edited book (1992)[11] discusses the economic necessity, rationale, myths and realities of privatization. Ruddar Datta's edited book (1993)[12] presents a good debate on economics and politics of privatization.

Mandal in his own book (1994)[13] examines worldwide trends in privatization, its relevance to Indian context and achievements in reforms required in

relation to privatization in different areas. Brahmachari in his book (1995)[14] is very critical of the performance of PSUs in India and draws lessons from France and Malaysia for privatization process in India.

I hope that this presentation will enable the prospective researchers to read the matter with pleasure and without any felt pressure on their minds. If it does, I shall feel amply rewarded for the pains I have taken.

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LIST OF ABBREVIATIONS USED

ACMA	=	Automotive Component Manufacturers Association
AIAM	=	Indian Automobile Manufacturers Association
BIFR	=	Board For Industrial And Financial Reconstruction
BOP	=	Balance of Payment
CCI	=	Central Cottage Industries Ltd.
CII	=	Confideration of Indian Industries
CIS	=	Commonwealth of Independent State
DIC	=	District Industries Centre
DTC	=	Delhi Transport Corporation
EOUs	=	Export Oriented Units
EPZs	=	Export Processing Zones
EPCG	=	Export Promotion of Capital Goods
ESOP	=	Employees Stock Ownership Plans
EXIM	=	Export And Import
FCI	=	Food Corporation of India
FDI	=	Foreign Direct Investment
GDP	=	Gross Domestic Product
GIC	=	General Insurance Corporation
HCVs	=	Heavy Commercial Vehicles
HML	=	Hindustan Motors Limited
HMGB	=	Hindustan Max GB
ICICI	=	Industrial Credit And Investment Corporation of India

IDBI	=	Industrial Development Bank of India
IDI	=	Institute Development Industrial
IDRA	=	Industries (Development & Regulation) Act, 1951
IMF	=	International Monetary Fund
IMRB	=	Indian Market Research Bureau
IOC	=	Indian Oil Corporation
IPR	=	Industrial Policy Resolution
KVIC	=	Khadi & Village Industries Commission
KVI	=	Khadi & Village Industries
LCVs	=	Light Commercial Vehicles
LERMS	=	Liberalized Exchange Rate Management System
LDH	=	Left Hand Drive
LIC	=	Life Insurance Corporation
LMBO	=	Leveraged Management/Employee Buy-out
MAMC	=	Mining And Allied Machinary Corporation Ltd.
MBO	=	Management/Employee Buy-out
MD	=	Managing Director
M & HCVs	=	Medium & Heavy Commercial Vehicles
MMTC	=	Minerals & Metals Trading Corporation
MOU	=	Memorandom of Understanding
MRTP	=	Monopoly And Restrictive Trade Practices
MTNL	=	Mahanagar Telephone Nigam Limited
MUL	=	Maruti Udyog Limited
NAV	=	Net Asset Value
NIP	=	New Industrial Policy
NRF	=	National Renewal Fund
NRI	=	Non-Resident Indian

NTC	=	National Textile Corporation
NTPC	=	National Thermal Power Corporation
OGL	=	Open General Licence
OJT	=	On The Job Training
ONGC	=	Oil And Natural Gas Commission
PAC	=	Public Accounts Committee
PAL	=	Premier Automobile Limited
PAT	=	Profit After Tax
PBT	=	Profit Before Tax
PE	=	Public Enterprise
PECV	=	Profit Earning Capacity Value
PSE	=	Public Sector Enterprise
PSU	=	Public Sector Undertaking
RBI	=	Reserve Bank of India
SAIL	=	Steel Authority of India Limited
SBI	=	State Bank of India
SEBI	=	Securities And Exchange Board of India
SIDBI	=	Small Industries Development Bank of India
SLPSUs	=	State Level Public Sector Undertakings
SMC	=	Suzuki Motor Company
SMPL	=	Standard Motor Products Limited
SOE	=	State-owned Enterprise
SSI	=	Small Scale Industry
TELCO	=	Tata Engineering And Locomotive Company
TOC	=	Tata Oil Corporation
U.K.	=	United Kingdom

U.S.A. = United State of America

U.S.S.R. = (Earstwhile) Union of Soviet Socialist Republic

VRS = Voluntary Retirement Scheme

VSNL = Videsh Sanchar Nigam Limited.

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INDUSTRIAL POLICY AND DEVELOPMENT IN INDIA

CHAPTER-I

INDUSTRIAL POLICY AND DEVELOPMENT IN INDIA

Long ago industrialisation came to be recognised as a means of modern living-especially after the Industrial Revolution in West European countries. Thereupon, a number of countries started making planned efforts towards attaining the objective of better ways of living. Industrial policies were evolved by various countries.

The 'Industrial Policy' of any nation is basically composed of two components - one is the philosophy of a given society to shape industrial growth and the other is the implementation which gives the practical shape to the philosophy of the society. The first component of industrial policy is the philosophy which consists of an approach to, and objectives of industrial development. The approach can broadly be classified into three categories.

The first category is capitalism or capitalistic economy which is based upon the faith in the private property and market orientation of the use of resources or in other words, it is an economic system

in which all the means of production are privately owned. It encourages competition and private initiative and lays its foundation on 'survival of the fittest'. But there are many limitations associated with this system. Under the system, the society comes to be divided into 'Haves', and 'Have nots'. This artificial division created social tension. As a result, a large part of the world population got disappointed with capitalistic system and adopted an alternative form of economic system known as a socialistic economic system.

Socialism or Socialistic Economy believes in socialization of all the resources or all the means of production. It is an economic system in which all the means of production are owned only by the Government. The Government itself decides the use of every economic factor/service and directs all the households and the firms. This type of economic system was first of all adopted by the Soviet Union and few other countries in Eastern Europe like Czechoslovakia, Hungary, Poland, Romania, Bulgaria. In Latin America (Cuba), and in Asia, China, North Korea, Vietnam had followed the Soviet Union and adopted Socialism as the form of economic system. Recently, China and other socialist countries have permitted private property on a limited scale.

The afore-mentioned system ensures economic equality and all the available resources are put to their optimum use but it eliminates private enterprise and initiative. Above all, this system is totalitarian in nature and characterized by rigid controls, even then it does promote economic growth, equality and stability. Though theoretically quite good, the system could not work for a long time as the handful people responsible for putting the system into practice used it for their own ends at the cost of common people. The people at large got disgruntled with the system. Consequently, all East European countries and the newly independent Republics of the earstwhile USSR, which organized themselves into the Commonwealth of Independent State (CIS), gave up socialism. China, Cuba, Vietnam and North Korea are the only countries which are still continuing with socialism.

As an alternative to the capitalist and Socialist system, a system wherein the private enterprises were allowed to work, make their own decisions and grow and simultaneously, the Governments were also empowered to play an important role in promoting economic development of their countries, was evolved. In doing so, the governments owned the mean of production, participated in decision making and gave a

general direction to the private enterprises for the overall economic development of their countries. The system came to be known as Mixed Economic System.

The Mixed Economy, as mentioned above, is a combination of both the capitalistic economy and the socialist economy. This economic system has been functioning in India, Pakistan, Sri Lanka, Nepal, Italy, Sweden, Nigeria, Egypt etc. Under the system, private property is allowed and the entrepreneurs are free to choose their lines of production[1]. In India all concerns belonging to Tatas, Birlas, Modies, Dalmias and so on are privately owned while the Government has also actively participated, owned, controlled and managed various production units like the Steel Authority of India Ltd. (SAIL), National Textiles Corporation (NTC). Air India, State Bank of India (SBI), Delhi Transport Corporation (DTC), Modern Bakeries and hundreds of other units which constitute the Public Sector of the economy. The tremendous growth of PSUs in these countries was firstly due to the fact that such undertakings required huge investments which only the Governments could provide. Secondly, while from the Society's point of view the PSUs were of immense importance, private enterprises were not interested in them because of low rate of return.

Pre-independence industrial policy was the conscious adoption of a mixed economy that represented, in general, the continuity of British and Pre-British tradition. In British India the Industrial Policy was practically confined to major public utilities to fulfil the government requirements of defence and industrial goods. The Policy in India was in complete harmony with the law of comparative advantage which meant that the Indian economy should be confined for ever to agricultural and extractive industries. The early industrial policy of the British Government has been aptly summed up by Vera Anstey as follows :

"It was thought inevitable that India should remain predominantly agricultural, whilst the Government wished to avoid both the active encouragement of industries (like the cotton mill industry) that competed with powerful English interests and increased State expenditure. Hence, even at the end of the nineteenth century, all that the government did, was to provide a certain amount of technical and industrial education and attempted to collect an industrial information."

In 1905 though the Department of Commerce was established by the Government to encourage industrialization in the country, no serious efforts were made

in the real sense of the term. In 1907, Sir John Hewett, a member of the department held a conference in Nainital and it was agreed that loans and grants be provided to various industrial concerns, especially sugar factories in Kanpur. The government of Madras also succeeded in producing aluminium hollowware, in developing handloom weaving and in introducing chrome process of manufacturing leather.

The First World War caused vulnerability to the Indian economy and the government resolved to examine the industrial policy. Lord Hardinge on 26th November 1915 wrote to the Secretary of the State : 'It is becoming increasingly clear that a definite and self conscious policy of improving the industrial capabilities of India will have to be pursued after the war. This led to the appointment of the Indian Industrial Commission in 1916.[2]

The Industrial Commission in its report, after a scholarly analysis of the Indian Industrial Scene, recommended a very active policy of government encouragement of industry. Among its recommendations was one on the national necessity of establishing certain key industries, such as, magnetos, incandescent lamps ferrotungsten, high speed steel,

graphite crucible, special forms of porcelain for insulators, chemical glass, certain types of heavy chemicals, rubber and vulcanite. It added that where secret or very specialised processes of manufacture are involved government should take steps to facilitate their introduction and make the administrative and scientific and technical staff abundant and capable enough to take the new jobs consequent on the adoption of the recommendations of the commission. The report even urged, 'direct financial aid', which might take the form of guarantee of dividends, loans of money, undertaking to purchase output or contribution to share capital.[3]

In 1937, the Congress President Mr. Subhash Chandra Bose called a conference of Provincial Ministers of Industries where the Congress Party was in power to consider the question of economic development. The conference emphasized the need for rapid industrialization and drew up a comprehensive plan for the overall industrial growth and development of the country. This ultimately gave birth to the National Planning Committee under the Chairmanship of Pandit Jawaharlal Nehru. The committee categorized industries into defence, key and public utility, and recommended that they be owned and operated by the

state. The public utility, owned by central, provincial and local governments, were to cover distribution of electricity and gas, public transport and communication, water supply and sanitation. The key industries, among others, included power generation, fuel, including coal, mineral oil and natural gases, machine tools industry for making machinery and machinery parts, locomotives, wagons, automobiles, aircrafts and the like, metals, ferrous and non-ferrous heavy and fine chemicals including dyes, fertilizers and refractories.[4]

Two years later the second World War broke out and nothing happened during this time and the policy of industrialization remained unchanged. The slow pace of industrialization was not upto the mark to face the grave challenges posed by the increasing population of the country and low per capita income. Infrastructure needed the pivotal concern of the policy makers. As soon as the Congress Party, led by Pandit Jawaharlal Nehru, came to power in 1947, it contemplated for a fast growth rate for building up of the infrastructure. Thus, it was only after the independence that the development of basic and strategic industries was taken up in a systematic and planned manner[5]. To meet the infrastructural development and other necessities congress has to lay down a policy contained in the IPR of 1948 which is reproduced below :

Government of India Resolution on Industrial Policy dated the 6th April, 1948

The Government of India have given careful thought to the economic problems facing the country. The nation has now set itself to establish a social order where justice and equality of opportunity shall be secured to all the people. The immediate objective is to provide educational facilities and health services on a much wider scale, and to promote a rapid rise in the standard of living of the people by exploiting the latent resources of the country, increasing production and offering opportunities to all for employment in the service of the community. For this purpose, careful planning and integrated effort over the whole field of national activity are necessary; and the Government of India propose to establish a National Planning Commission to formulate programmes of development and to secure their execution. The present statement, however, confines itself to Government's policy in the industrial field.

Any improvement in the economic conditions of the country postulates an increase in national wealth; a mere redistribution of existing wealth would make no essential difference to the people and would merely mean the distribution of poverty. A dynamic national policy must, therefore, be directed to a continuous increase in production by all possible means, side by side with measures to secure its equitable distribution. In the present state of the nation's economy, when the mass of the people are below the subsistence level, the emphasis should be on the expansion of production, both agricultural and industrial; and in particular on the production of capital equipment, of goods satisfying the basic needs of the people, and of commodities the export of which will increase earnings of foreign exchange.

The problem of State participation in Industry and the conditions in which private enterprise should be allowed to operate must be judged in this context. There can be no doubt that the State must play a progressively active role in the development of industries, but ability to achieve the main objectives should determine the immediate extent of State responsibility and the limits to private enterprise. Under present conditions, the mechanism and the resources of the State may not permit it to function forthwith in Industry as weidely as may be desirable. The Government of India are taking steps to remedy the

situation; in particular, they are considering steps to create a body of men trained in business methods and management. They feel, however, that for some time to come, the State could contribute more quickly to the increase of national wealth by expanding its present activities wherever it is already operating and by concentrating on new units of production in other fields, rather than on acquiring and running existing units. Meanwhile, private enterprise, properly directed and regulated, has a valuable role to play.

On these considerations, the Government have decided that the manufacture of arms and ammunition, the production and control of atomic energy, and the ownership and management of railway transport should be the exclusive monopoly of the Central Government. Further, in any emergency, the Government would had always have the power to take over any industry vital for national defence. In the case of the following industries, the State -- which in this context, includes Central, Provincial and State Governments and other Public Authorities like Municipal Corporations-- will be exclusively responsible for the establishment of new undertakings, except where, in the national interest, the State itself finds it necessary to secure the co-operation of private enterprise subject to such control and regulation as the Central Government may prescribe :

(1) Coal (the Indian Coalfields Committee's proposals will be generally followed).

(2) Iron and Steel.

(3) Aircraft Manufacture.

(4) Shipbuilding.

(5) Manufacture of telephone, telegraph and wireless apparatus, excluding radio receiving sets.

(6) Mineral Oils.

While the inherent right of the State to require any existing industrial undertaking will always remain, and will be exercised whenever the public interest requires it, Government have decided to let existing undertakings in these fields develop for a period of ten years, during which they will be allowed all facilities for efficient working and reasonable expansion. At the end of this period, the

whole matter will be reviewed and a decision taken in the light of circumstances obtaining at the time. If it is decided that the State should acquire any unit, the fundamental rights guaranteed by the Constitution will be observed and compensation will be awarded on a fair and equitable basis.

Management of State enterprise will, as a rule, be through the medium of public corporations under the statutory control of the Central Government, who will assume such powers as may be necessary to ensure this.

The Government of India have recently promulgated a measure for the control by the State of the generation and distribution of electric power. This industry will continue to be regulated in terms of this measure.

The rest of the industrial field will normally be open to private enterprise, individual as well as co-operative. The State will also progressively participate in this field; nor will it hesitate to intervene whenever the progress of an industry under private enterprise is unsatisfactory. The Central Government have already embarked on enterprises like large river-valley developments, which are multi-purpose projects of great magnitude, involving extensive generation of hydro-electric power and irrigation on a vast scale, and are calculated in a comparatively short time to change the entire face of large areas in this country. Projects like the Damodar Valley Scheme, the Kosi Reservoir, the Hirakud Dam, etc., are in a class by themselves and can stand comparison with any of the major schemes in America or elsewhere. The Central Government have also undertaken the production of fertilizer on a very large scale and have in view other enterprises like the manufacture of essential drugs, and of synthetic oil from coal; many Provincial and State Governments are also proceeding on similar lines.

There are certain basic industries of importance, apart from those mentioned in paragraph 4, the planning and regulation of which by the Central Government is necessary in the national interest. The following industries whose location must be governed by economic factors of all-India import, or which require considerable investment or a high degree of technical skill, will be the subject of a Central regulation and control :

(1) Salt.
(2) Automobiles and tractors.
(3) Prime Movers.
(4) Electric Engineering.
(5) Other heavy machinery.
(6) Machine tools.
(7) Heavy chemicals, fertilizers and pharmaceuticals and drugs.
(8) Electro-chemical industries.
(9) Non-ferrous metals.
(10) Rubber Manufactures.
(11) Power and industrial alcohol.
(12) Cotton and woollen textiles.
(13) Cement.
(14) Sugar.
(15) Paper and newsprint.
(16) Air and Sea Transport.
(17) Minerals.?
(18) Industries related to defence.

The above list cannot obviously be of an exhaustive nature. The Government of India, while retaining the ultimate direction over this field of industry, will consult the Governments of the Provinces and States at all stages and fully associate them in the formulation and execution of plans. Besides these Governments, representatives of Industry and Labour will also be associated with the Central Government in the Industrial Advisory Council and other bodies which they propose to establish, as recommended by the Industries Conference.

Cottage and small-scale industries have a very important role in the national economy, offering as they do scope for individual, village or co-operative enterprise and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. The healthy expansion of cottage and small-scale industries depends upon a number of factors like the provision of raw materials, cheap power, technical advice, organised marketing of their produce, and, where necessary, safeguards against intensive competition by large-scale manufacture, as well as on the education of the worker in the use of the best available technique. Most of these fall in the Provincial sphere and are receiving the attention of the Governments of the Provinces and the States. The

Resolution of the Industries Conference has requested the Central Government to investigate how far and in what manner these industries can be coordinated and integrated with large scale industries. The Government of India accept this recommendation. It will be examined, for example, how the textile mill industry can be made complementary to, rather than competitive with the handloom industry, which is the country's largest and best organised cottage industry. In certain other lines of production, like agricultural implements, textile accessories, and parts of machine tools, it should be possible to produce components on a cottage industry scale and assemble these into their final product at a factory. It will also be investigated how far industries at present highly centralised could be decentralised with advantage.

The Resolution of the Industries Conference has recommended that Government should establish a Cottage Industries Board for the fostering of small scale industries. The Government of India accept this recommendation and propose to create suitable machinery to implement it. A Cottage and Small-scale Industries Directorate will also be set up within the Directorate General of Industries and Supplies.

One of the main objectives will be to give a distinctly co-operative bias to this field of industry. During and before the last war, even a predominantly agricultural country like China showed what could be done in this respect, and her mobile industrial co-operative units were of outstanding assistance in her struggle against Japan. The present international situation is likely to lessen to a marked degree our chances of getting capital goods for large-scale industry, and the leeway must be made up by having recourse to small-size industrial co-operatives throughout the country.

The Government, however, recognise that their objective, viz., securing the maximum increase in production, will not be realised merely by prescribing the respective spheres of the State and of private enterprise in Industry; it is equally essential to ensure the fullest co-operation between labour and management and the maintenance of stable and friendly relations between them. A Resolution on this subject was unanimously passed by the Industries Conference which was held in December last. Amongst other things, the Resolution states :

".... The system of remuneration to capital as well as labour must be so devised that, while in the interests of the consumers and the primary producers, excessive profits should be prevented by suitable methods of taxation and otherwise, both will share the product of their common effort, after making provision for payment of fair wages to labour, a fair return on capital employed in the industry and reasonable reserves for the maintenance and expansion of the undertaking."

Government accept this Resolution. They also consider that labour's share of the profits should be on a sliding scale normally varying with production. They propose in addition to the over-all regulation of industry by the State to establish machinery for advising on fair wages, fair remuneration for capital, and conditions of labour. They will also take steps to associate labour in all matters concerning industrial production.

The machinery which Government propose to set up will function at different levels, central, regional and unit. At the Centre, there will be a Central Advisory Council, which will cover the entire field of industry, and will have under it Committees for each major industry. These Committees may be split up into sub-committees dealing with specific questions relating to the industry, e.g., production, industrial relations, wage fixation, and distribution of profits. The regional machinery under the Provincial Governments will be Provincial Advisory Boards which, like the Central Advisory Council, will cover the entire field of industry within the province; they will have under them the Provincial Committees for each major industry. The Provincial Committees may also be split up into various sub-committees dealing with specific questions relating to production, wage fixation and industrial relations. Below the Provincial Committees will come the Works Committees and the Production Committees attached to each major industrial establishment.

The Works Committees and the Production Committees will be bipartite in character, consisting of representatives of employers and workers only, in equal numbers. All other Committees will be tripartite, with representatives of Government employers and workers.

Government hope that the machinery proposed will substantially reduce the volume of industrial disputes. In the case of unresolved conflicts, Government trust that management and labour will, in their own interests and in the larger interests of the country, agree to settle them through recognised channels of conciliation and arbitration, which will be provided by Government. The Industrial Relations Machinery, both at the Centre and in the Provinces, is being strengthened, and permanent Industrial Tribunals are being established for dealing with major disputes.

The Government of India are also taking special steps to improve industrial housing as quickly as possible. A scheme for the construction of one million workers' houses in ten years is under contemplation, and a Housing Board is being constituted for this purpose. The cost will be shared in suitable proportions between Government, employers and labour, the share of labour being recovered in the form of a reasonable rent.

In order to ensure quick decisions on the various matters arising out of the Industrial Truce Resolution, Government are appointing a special officer.

The Government of India agree with the view of the Industries Conference that, while it should be recognised that participation of foreign capital and enterprise, particularly as regards industrial technique and knowledge, will be of value to the rapid industrialisation of the country, it is necessary that the conditions under which they may participate in Indian industry should be carefully regulated in the national interest. Suitable legislation will be introduced for this purpose. Such legislation will provide for the scrutiny and approval by the Central Government of every individual case of participation of foreign capital and management in industry. It will provide that, as a rule, the major interest in ownership, and effective control, should always be in the Indian hands; but power will be taken to deal with exceptional cases in a manner calculated to serve the national interest. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.

The Government of India are fully alive to their direct responsibility for the development of those industries which they have found necessary to reserve exclusively for State enterprise. They are equally redy to extend their assistance to private or co-operative enterprise in the rest of the industrial field, and in particular, by removing transport difficulties and by facilitating the import of essential raw materials to the maximum possible extent. The tariff policy of Government will be designed to prevent unfair foreign competition and to promote the utilisation of India's resources without imposing unjustifiable burdens on the consumer. The system of taxation will be reviewed and readjusted where necessary to encourage saving and productive investment and to prevent undue concentration of wealth in a small section of the population.

The Government of India hope that this elucidation of their intensions of fundamental aspects of industrial policy will remove all misapprehensions, and they are confident that a joint and intensive effort will now be made by labour, capital and the general public, which will pave the way for the rapid industrialisation of the country.

A careful perusal of the Industrial Policy Statement reveals that it contemplated a mixed economy reserving a sphere for the public sector and another for the private sector. The Industries were divided into four broad castegories: (a) the manufacture of arms and ammunitions, production and control of atomic energy and ownership and control of railway transport were to be the exclusive monopoly of the Central Government, (b) the second category covered coal, iron & steel, aircraft manufacture, ship-building and

manufacture of telephones, telegraph and wireless apparatus excluding radio receiving sets and mineral oils and new industries in these fields could henceforth be undertaken only by the state, (c) the third category covered industries of such basic importance that Central Government would feel it necessary to plan and regulate them; it consisted of industries like salt, automobiles, tractors, prime movers, electric engineering, heavy machinery, machine tools, heavy chemicals, fertilizers, electro-chemical industries, non-ferrous metals, rubber manufactures, power and industrial alcohol, cotton and woollen textiles, cement, sugar, paper and newsprint, air and sea transport, minerals and industries relating to defence (d) remainder of the industrial field was left open to the private enterprise, individual as well as cooperative.

Thus, after the IPR of 1948, the field for the operation of the private sector was confined to the unorganized small and tiny sector where individuals could engage themselves in petty shop keeping or trading and manufacturing on a very small-scale.

Similarly, while the Government recognized the need for securing the participation of foreign capital and enterprises for fostering the pace of industrialization in the country but it was made amply clear that, 'as a rule, the major interest in ownership and effective control should always be in the Indian hands. In all cases, however, the training of suitable Indian personnel for the purpose of eventually replacing foreign experts will be insisted upon.[6]

Since the adoption of IPR of 1948, significant developments had taken place in the country. Firstly, the country had adopted its own constitution on January 26, 1950 which guaranteed certain fundamental rights and laid down Directive Principles of State Policy, the First Five Year Plan had been completed and, thus, planning had proceeded on an organized basis and finally the Parliament, after Pandit Nehru's visit to the USSR in 1954, had adopted 'socialist pattern of society' as the basic aim of social and economic policy. All these developments called for a new IPR which was announced on April 30, 1956 which is reproduced below :

Government of India, Industrial Policy Resolution
New Delhi, the 30th April, 1956

The Government of India set out in their Resolution dated the 6th April, 1948, the policy which they proposed to pursue in the industrial field. The Resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressively active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government the State would be exclusively responsible for the establishment of new undertakings in six basic industries -- except where, in the national interest, the State itself found it necessary to secure the co-operation of private enterprise. The rest of the industrial field was left open to private enterprise thought it was made clear that the State would also progressively participate in this field.

2. Eight years have passed since this declaration on industrial policy. These eight years have witnessed many important changes and developments in India. The Constitution of India has been enacted, guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised basis, and the first Five Year Plan has recently been completed. Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the second Five Year Plan will soon be placed before the country. This policy must be governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.

3. The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens -

> "**JUSTICE**, Social, economic and political;
> **LIBERTY** of thought, expression, belief, faith and worship;
> **EQUALITY** of status and of opportunity; and to promote among them all;
> **FRATERNITY** assuring the dignity of the nation."

In its Directive Principles of State Policy, it is stated that :-

"The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice social, economic and political, shall inform all the institutions of the national life."

Further that -

"The State shall, in particular, direct its policy towards securing -

(a) that the citizens, men and women equally, have the right to an adequate means of livelihood;

(b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;

(c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;

(d) that there is equal pay for equal work for both men and women;

(e) that the health and strength of workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age or strength;

(f) that childhood and youth are protected against exploitation and against moral and material abandonment."

4. These basic and general principles were given a more precise direction when Parliament accepted in December, 1954, the socialist pattern of society as the objective of social and economic policy. Industrial policy, as other policies, must therefore be governed by these principles and directions.

5. In order to realise this objective, it is essential to accelerate the rate of economic growth and to speed up industrialisation and, in particular, to develop heavy industries and machine making industries, to expand the public sector, and to build

up a large and growing co-operative sector. These provide the economic foundations for increasing opportunities for gainful employment and improving living standards and working conditions for the mass of the people. Equally, it is urgent, to reduce disparities in income and wealth which exist today, to prevent private monopolies and the concentration of economic power in different fields in the hands of small numbers of individuals. Accordingly, the State will progressively assume a predominant and direct responsibility for setting up new industrial undertakings and for developing transport facilities. It will also undertake State trading on an increasing scale. At the same time, as an agency for planned national development, in the context of the country's expanding economy, the private sector will have the opportunity to develop and expand. The principle of co-operation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed along co-operative lines.

6. The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The State has therefore to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limiting factors which make it necessary at this stage for the State to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role. After considering all aspects of the problem, in consultation with the Planning Commission, the Government oif India have decided to classify industries into three categories, having regard to the part which the State would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity might defeat the purpose in view. But the basic principles and objectives have always to be kept in view and the general directions hereafter referred to be followed. It should also be remembered that it is always open to the State to undertake any

type of industrial production.

7. In the first category will be industries the future development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively State-owned and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.

8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever co-operation with private enterprise is necessary, the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertakings.

9. Industries in the second category will be those listed in Schedule B. With a view to acclerating their future development, the State will increasingly establish new undertakings in these industries. At the same time private enterprise will also have the opportunity to develop in this field, either on its own or with State participation.

10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in

successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institution to provide financial aid to these industries and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

11. Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exist in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them.

12. The division of industries into separate categories does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the State to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light-craft, generation of power for local needs and small scale mining. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector. The

same principle would apply with even greater force to the relationship between large scale and small scale industries.

13. The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

14. The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State Policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial co-operatives. Such co-operatives should be encouraged in every way and the State should give constant attention to the development of cottage and village and small scale industry.

15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment, provided the location is otherwise suitable. Only by securing a balanced and co-ordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

16. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of village and small scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet shortages at supervisory levels, to organise apparenticeship schemes of training on a large scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

17. It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with the growing recognition of the obligation of both management and labour. There should be joint consultation and workers and technicians should, wherever possible, be associated progressively

in management. Enterprises in the public sector have to set an example in this respect.

18. With the growing participation of the State in industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.

19. The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statements of policy. The division of responsibility between the Central Government and the State Governments in regard to industries has been set out in the Industries (Development and Regulation) Act. The Prime Minister, in his statement in Parliament on the 6th April, 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution.

20. The Government of India trust that this restatement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.

SCHEDULE A

1. Arms and ammunition and allied items of defence equipment.

2. Atomic energy.

3. Iron and steel.

4. Heavy castings and forgings of iron and steel.

5. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government.

6. Heavy electrical plant including large hydraulic and steam turbines.

7. Coal and lignite.

8. Mineral soils.

9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond.

10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram.

11. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953.

12. Aircraft.

13. Air transport.

14. Railway transport.

15. Shipbuilding.

16. Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets).

17. Generation and distribution of electricity.

SCHEDULE B

1. All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.

2. Aluminium and other non-ferrous metals not included in Schedule 'A'.

3. Machine tools.

4. Ferro-alloys and tool steels.

5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilizers.
8. Synthetic rubber.
9. Carbonisation of coal.
10. Chemical pulp.
11. Road transport.
12. Sea transport.

A close look at the IPR of 1956 reveals that the division of industries into three categories as against four in 1948, bore a close resemblance to the earlier classification but they were more sharply defined and were definitely far more broad in coverage with regard to the role of the State in owning, regulating and exercising effective control over the industrial structure of the country.

Schedule A covered all those industries which were to be the exclusive responsibility of the State while Schedule B contained all those industries which were to be progressively State-owned and in which the state would generally set up new undertakings but in which private sector industries would be expected only to supplement the efforts of the state Schedule C covered the remaining industrial field which would, in

general, be left to the initiative and enterprise of the private sector. Schedule A covered seventeen industries while Schedule B covered twelve industries. It is to be noted here that Schedule C industries, left to the operation of the private sector could not be freely started and operated by the private sector. All these industries had to be fitted into the framework of the Social and economic policy of the State and were to be governed by the provisions of the industries (Development & Regulation) At, 1951, and in terms of other relevant legislations. Thus, the State reserved the right to enter into category C industries also when the needs of planning or some other important reasons, required the State to do so. It has rightly been remarked by Gunnar Myrdal that taking a good hard look at what, in fact has happened in India over the last decade and a half, it is evident that public and private enterprises have not remained in the categories prescribed by the industrial policy Resolution".[7]

The IPR of 1956 expressed clear doubts in the ability of the private sector to bring about faster economic growth and development in the country. The public sector was accorded' commanding heights' while the private sector was relegated to the background.

The so-called private sector became a sort of residuary legatee. Economic development was more explicitly equated with State enterprise.[8] Though, on the face of it, public sector in terms of the provisions of the IPR, 1956 was not to develop as a rival but create congenial conditions and infrastructure which would facilitate the growth of the private sector, later developments, through bureaucratic controls and regulations, made it difficult for the Private sector to grow. The supporters of the commanding heights of the public sector were of the view that 'the IPR of 1956 set out some of the Principles of Nehru's philosophy though it retained sufficient ambivalence to placate the uncommitted elements.[9]

Their view is based on the facts that licences were, later on, issued to the private sector in the areas which were reserved for the expansion of public sector. In our opinion this was more due to the compelling circumstances rather than encouraging the private sector enterprises. If the private sector investments zoomed in the wake of rapid public sector expansion it was more on account of boosting the growth of public sector (many of the private sector

units were obliged to supply components and inputs for the growth of the PSUs) rather than the Governments' sympathetic attitude towards it.

INDUSTRIAL POLICY STATEMENT-1977

In March 1977, the Janata Party assumed power in the Centre, replaced the Congress Government which had been ruling the country since independence. The Janata Government, on December 1, 1977, announced its Industrial Policy Statement, 1977.

The Policy stated that the Government policy in the field of industry had been governed by the IPR, 1956. Despite some desirable elements it has created some distortions, viz., unemployment has increased, there is not more than three to four per cent growth in industrial output every year, industrial sickness has widespread, some of the major industries are worst affected, rural-urban differences have widened and the rate of investment has become stagnant. Therefore, the industrial policy concentrated on the following:

DEVELOPMENT OF SMALL SCALE SECTOR : The main thrust of the Janata Government Industrial Policy was expressed in the following words : 'So far, the industrial

policy has mainly emphasized on large industries, cottage industries have been neglected and small scale industries were having minor role ..... So, the main thrust will be on effective promotion of cottage and small scale industries which are distributed throughout the rural areas and small towns. Government's policy was that whatever can be produced through small and cottage industries must only be so produced.'

The small-scale industries were classified into the following three categories :

(a) Cottage and household industries which provide employment on a wide scale.

(b) Tiny sector incorporating investment in industrial units in equipments and machinery upto Rs. 1 lakh and situated in towns having a population of less than 50,000.

(c) Small scale industries having Rs. 10 lakhs and in case of ancillaries upto Rs. 15 lakhs in fixed capital investment.

The Janata Party, thus, decided to develop all the three categories simultaneously. They were classified for designing policy measures for each category. The measures suggested for their promotion were as follows :

(i) Only 180 items were in the list of reservations for SSI Sector which were expanded further upto 807 items in May 1978.

(ii) In each district an agency called 'District Industries Centre" (DIC) was set up for the development of small scale and cottage industries. The agency provided a support and rendered the services needed by the industries. A separate wing of IDBI dealt with the credit requirements by these small scale and cottage industries.

(iii) To ensure effective approach for the development and widespread application of technology for small industries, so as to improve productivity and earning capacity of workers, special arrangements were made in this regard.

(iv) The Janata government proposed to renovate the Khadi and village Industries Commission so that the small scale industries could enlarge their areas of operations. The government also proposed to increase the production of footwear and soaps, through these industries.

Khadi was given a special place (Polyster Khadi, Nai Khadi) so that productivity and earnings of

Khadi weavers could be improved.

Areas for Large Scale Sector :

According to the Industrial Policy Statement, 1977, role of large scale industries was to fulfil the basic needs of the masses through wide dispersal of small scale and village industries and strengthen the agricultural sector.

In accordance with the Industrial policy Statement the following areas for large scale industries were prescribed.

(a) Basic industries, which can provide infra-structural development and the development of small scale and village industries such as steel, cement, oil refineries and non-ferrous metals.

(b) Capital goods industries which can meet the requirements of small scale and village industries.

(c) High technology industries giving large scale production and related to agricultural and small scale industries as fertilizers, pesticides and petro-chemicals.

(d) Other industries which were not included in the items of small-scale industries but were necessary for the economic development, such machine tools, organic and inorganic chemicals.

Expanding role of the Public Sector :

The policy stated that public sector will not only be the producer of essential and strategic goods but it would act as a force on essential supplies to the consumers. Public Sector would provide help in terms of technical and managerial expertise to the small-scale and cottage industries for their proper growth.

Promotion of Technological Self-reliance :

The Industrial Policy Statement recognized the necessity of continued inflow of technology in sophisticated areas where Indian technical skills and technology were not suitably developed.

Approach Towards Foreign Collaboration :

It emphasised that in the areas where technical know-how is not needed, foreign collaboration would not be renewed and in case of ownership and

effective control, the Statement endorsed the earlier stand that it should be in Indian hands. Government may consider the areas exceptionally which are export-oriented and/or having sophisticated technology. In hundred per cent export oriented cases the government may consider even a fully foreign owned company.

Approach Towards Large Business Houses :

As the large business houses growth was not in proportion to the size of their internally generated resources and they were relying mainly on public financial institutions and banks, the policy was reversed and these houses were required to rely on their own resources for their new projects and expansion works. The funds of the public financial institutions were largely to be available for small-scale industries. In capital investment field large industries were dominant, so preference was given to medium entrepreneurs and public sector corporations so that there was no concentration of economic power.

Approach Towards Sick Units :

Selective approach was made towards sick industrial units. It proposed that while the govern-ment could not ignore the necessity to secure

employment, the cost of their maintenance was also considsered. In many cases, public funds in large amounts had been invested in the sick units even then they incurred losses so more funds from public exchequer were fed to these units but it could not go indefinitely.[10]

The main contribution of the 1977 Industrial Policy Statement was to expand the list of 180 items reserved for the SSI Sector to 807 items. It failed to impose a ban on multinationals or Indian big business houses to produce items of common consumption such as breads, biscuits, toffees, footwear, leather products etc. Further, the large industrial houses also did not relish the idea that such units would have to rely on their internally generated resources for financing new projects or expansion of their existing units. This proved to be a big blow to them as they had built up their empires by using the funds provided by the financial institutions and banks. After three years in 1980, the Congress (I) Party dethroned the Janata Party which led to the announcement of the new Industrial Policy Statement in 1980.

INDUSTRIAL POLICY STATEMENT, 1980 :

The Industrial Policy Statement of 1980 stated that the 1956 policy reflects the value system of our

country and has shown the constructive flexibility. In terms of the 1980 Industrial Policy Resolution, the task of raising the pillars of economic infrastructure in the country was entrusted to the public sector for reasons of its greater reliability, for the very large investments required and the lower gestation period of the projects crucial for economic development. The 1956 Resolution, therefore, forms the basis of this Industrial Policy Statement which suggested the following measures :

Effective Operational Management of the Public Sector:

It was accepted in 1980 statement that there has been an erosion of faith in the public sector in recent years due to its poor performances and inefficiency. So, the government decided to revive the efficiency of the public sector.

Economic Federalism and Integrated Industrial Development :

The Industrial Policy Statement of 1980 also brought the new concept of economic federalism and integrated industrial development. It specifically stated that the government would reverse the last three years trends of creating artificial division of

large and small sectors, which were misconcepted to create an interest of conflict, the concept of setting economic federalism by setting different nucleus plants in each district which were recognized by the government as industrially backward districts and thus to generate as many ancillaries, small and cottage industries in the districts as possible was emphasised.

Redefining of Small Units :

For boosting up the development of small industries the government decided :

(1) To increase the investment limit of tiny industrial units from Rs. one lakh to Rs. two lakhs.

(2) The limit of investment for small-scale industries unit was raised from Rs. 10 lakhs to Rs. 20 lakhs.

(3) In case of ancillaries, limit of investment was increased from Rs. 15 lakhs to Rs. 25 lakhs.

Removal of Regional Imbalances :

To correct imbalance in regional development and disproportionate dispersal of industries, setting up of new units in industrially backward areas was encouraged.

Promotion of Industries in Rural Areas :

The Industrial Policy Statement also stated the need to promote suitable industries in rural areas so as to provide employment in the areas and to increase the per capita income of the villagers. Handlooms, handicrafts and Khadi were given special attention for the faster growth of village industries.

Automatic Expansion :

Extension and simplification of the facilities of automatic expansion were specially given attention for large scale industries. These industries were those included in first schedule of Industries (Development & Regulation) Act of 1951.

Regularization of Unauthorized Excess Capacity :

It stated procedure for regularizing the unauthorized excess capacity. FERA and MRTP companies were specially considered selectively for regularizing unauthorized capacity in excess of the licensed capacity.

Industrial Sickness :

Regarding the industrial sickness the 1980 Industrial Policy Statement recognized the fact of

mis-management and financial improprieties in a large number of industrial units which kept them sick. The government decided to deal with the phenomenon with a firm hand.

In the case of existing sick undertakings which showed adequate potential for revival, it would be the policy of government to encourage their merger with healthy units which were capable of managing the sick undertakings and restoring their giability. For this purpose the existing tax concession under Section 72-A of the Income Tax Act would be made more liberally available to amalgamation proposals which would serve the purpose of revival of sick units. Management of sick units would be taken over only in exceptional cases on grounds of public interest where other means for the revival of sick undertakings were not considered feasible.[11]

The Industrial Policy (1980) was guided merely by considerations of growth. It liberalised licensing for large and big business but by blurring the distinction between small scale and large scale industries it seeks to promote the latter at the cost of the former. Broadly speaking, the Industrial Policy choose a more capital-intensive path of development and thus, it under played the employment objective.[12]

LIBERALIZATION MEASURES, 1985

Soon after resuming the office, the then Prime Minister Late Mr. Rajeev Gandhi's Government declared the liberalization of licensing policy in favour of the large industries and they were freed from the provisions of the MRTP and FERA Acts. Some of the important features of the Industrial Policy Statement, 1985 were as follows :

a) Liberalization of Licensed Capacity :

Policy changes of 1985 made the industries to stand at place where they could grow with a rapid pace, achieve economies of scale and undergo modernization thus setting some latest technologies. The scheme for re-endorsement of capacity was liberalized. Increase was granted to those units which were paying attention to the economies of scale and due to modernization a 49 per cent rise in capacity was allowed to them. On 30th January, 1986 the Government delicensed 23 industries to which provisions of the MRTP and FERA Acts applied. Delicensing was, however, proposed only for those undertakings which were in centrally approved backward areas.

b) **Concept of Broad-Banding Introduced** :

Keeping in view the market demand, the concept of broad banding was developed to enhance production and give flexibility to the manufacturers to adjust their product-mix. It was introduced to a large number of items, some of these were machine tools, motorized two-wheelers and four-wheelers, paper and pulp, fertilizers, pharmaceuticals, petro-chemicals and entertainment electronics. Basic advantage of this concept was that licenses issued in terms of broad categories would enable the undertakings to produce any of the items covered so that total production should not exceed the licensed capacity.

c) **Raising Asset Limits of MRTP Companies** :

The assets limit of the companies which were under MRTP Act was raised from Rs. 20 crores to Rs.100 crores. This enabled 112 companies to come out of range of the MRTP Act. In May 1985, twenty seven industries were exempted from the application of Section 22A of the MRTP Act and thereupon 22 of these industries were delicensed from the MRTP and FERA Acts.

Again, the Cabinet Committee on Economic Affairs was to clear the licensing proposals of those

companies which were having an investment of Rs. 50 crores against the earlier limit of Rs. 20 crores.

d) **Attitudes towards small-scale Sector Units** :

Investment limits of the small-scale industrial units and ancillaries were enhanced from Rs. 20 lakhs to 25 lakhs and from Rs. 35 lakhs to Rs. 45 lakhs respectively. Further, nearly 200 items which were on the reservation list were dereserved and were made open for medium and large scale sectors.

It will be clear from the foregoing discussion that the number of industries requiring compulsory licensing was reduced from 56 to 26. Non-MRTP and Non-FERA Companies were required to obtain industrial licenses under IDRA for projects involving investment in fixed assets upto Rs. 50 crore if they were located in lintrally declared backward areas and Rs. 15 crores if they were located in non-backward area. The delicensed sector under new dispensation was extended to units importing upto 30% of their is put needs against 15% in the past. This was a case where import liberalisation was combined with industrial liberalisation to a good effect. Furthermore, income tax relief under section 80-HH (20% deduction of net profit upto 10 years) and section 80-1 (25% deduction

of profit upto 8 years) were made available cumulatively to industrial undertakings established in notified backward districts.

NEW INDUSTRIAL POLICY - 1990 :

The Janata Dal Government announced its Industrial Policy Statement on May 31, 1990, which gave a fresh direction to the industries and tried to generate more employment, show cross-sectional distribution of industries in rural areas and enhance the contribution of small-scale industries to exports. Specifically, the following measures were taken for the above mentioned purposes:

(1) The investment limit for small-scale industries was raised from Rs. 35 lakhs to Rs. 60 lakhs, whereas for ancillary units it was raised from Rs. 45 lakhs to Rs. 75 lakhs. The small-scale units which were to undertake 30 per cent of their annual production for export by the end of the third year, were permitted to step up their investment in plant and machinery to Rs. 75 lakhs.

(2) For tiny units investment limit was increased from Rs. 2 lakhs to Rs. 5 lakhs.

(3) Products manufactured in small-scale sector would be taken into account to increase the competitiveness in the market. So, programme for modernization and upgradation of technology would be implemented. For achieving this objective, a number of technology centres, tool rooms, process and product development centres and testing centres were to be set up under the roof of an apex technology development centre in Small Industries Development Organization.

a) A new apex bank named SIDBI would be established to assess the adequate and timely flow of money to the small-scale industries. The major task of the SIDBI formed and other commercial banks/financial institutions would be to channelize the need-based high flow of credit in terms of working capital or loan to the tiny and rural industries.

b) An exercise would be undertaken to identify locations in rural areas endowed with adequate power supply and intensive compaign would be launched to attract suitable entrepreneurs and provide all other inputs to foster small-scale and tiny industries. Similarly, industries which were not energy intensive would be identified for proliferation in rural area, where power supply was at that time a constraint.

c) Small-scale industries which were subjected to a large number of Acts/Laws, thus having a lot of complaints and were maintaining a number of registers particularly in the field of labour legislation were to be freed from bureaucratic controls so that unnecessary interference did not come in the way of development and growth of those industries.

Agro-based rural Industries :

(4) The roles of the KVIC (Khadi & Village Industries Commission) and KVI (Khadi & Village Industries) would be enhanced and expanded and these organisations were to be strengthened to discharge their responsibilities more effectively to assist the artisans engaged in the rural and cottage industries. Special marketing organizations at the Centre and State levels would be set up to market their products and to get adequate supply of raw materials. Besides, special training, concessional credits and free consultancy to groups of aritsans would be provided.

(5) Greater success had been achieved in agro-processing industries where growers and processors were integrated, as in the case of

sugar. In other agro-based industries closer links must be forged between growers and processors units. Industrial policy would promote those projects which were organized in close cooperation on the basis of joint ownership. If the growers wanted to set up a processing unit they would be assisted within the framework of cooperative units and financial assistance and better technology would be given to the growers to enhance their agricultural production.

(6) High priority would be given to the agro-processing industries in credit allocation from the financial institutions.

Procedure for Industrial Approvals :

It was perceived that Indian Industries must be kept at a place where they could compete in the international market by releasing them from the unnecessary bureaucratic shackles and reducing the clearance required by government. So, the Government decided to examine the large projects in view of resource constraints while decision for medium sized investments would be left to the entrepreneurs. To achieve the above mentioned goals following points were considered :

7) **Location Policy and Environmental Clearance** : The policy applied only to those industries which would be set up or were at that time in and around the metropolitan with a population of above four millions. For these cities location would not be permissible within 20 kms, calculated from the periphery of the metropolitan area. The non-polluting industries such as electronics, computer software and printing were excluded from the policy.

8) **Export-oriented Units** ; 100 per cent export oriented units (EOUs) having as upper investment limit of 75 crores, and units to be associated with Export Processing Zones (EPZs) were delicensed under the scheme. But 836 items reserved in the small-scale sector would continue.

9) **Delicensing** :

(i) All the new units upto an investment in assets upto Rs. 25 crores in non-backward areas and Rs. 75 crores in Government recobackward areas were exempted from obtaining a license or registration under the policy.

(ii) Import of Capital Goods : For the import of Capital Goods, an entrepreneur was allowed to

import upto a landed value of 30 per cent of the total value of plant and machinery for the unit.

(iii) Import of Raw-materials and Components : For the import of raw materials and components, it was permitted upto a landed value of 30 per cent of the ex-factory value of annual production (excluding the excise duty on the items of production and raw materials and components on OGL).

(iv) Foreign collaboration : If transfer of technology was needed and it was necessary, entrepreneur could conclude an agreement with the collaborator, without any clearance from the government having a provision that royalty payment must not exceed five per cent on domestic sales and eight per cent on exports.

(v) Foreign Investment : Considering the need for inflow of the effective technology, investment upto 40 per cent of equity was allowed on an automatic basis.

It will be observed from the foregoing discussion that the 1990 Industrial policy tried to boost up the growth of small-scale sector as well as

made an effort to permit blanket liberalisation with a view to accelerate the growth of the medium and large-scale sector. It also gave an unfettered right to conclude foreign collaborations in case the royalty payment did not exceed 5 per cent on domestic sales and 8 per cent on exports. The entrepreneur could import capital goods upto a landed value of 30 per cent of the total value of plant and machinery required for the unit. Similarly, imports of raw materials and components were also permitted upto landed value of 3 per cent of the ex-factory value of annual production. It would not include raw materials and components on open general licence. Thus, the same unit could claim import licence for Capital goods as well as raw materials and components. Due to the adverse balance of payment situation, the industrial policy added to the burden of imports. Moreover 100 per cent Export Oriented Units (EOUs) and units to be set up in Export Processing Zones (EPZs) were delicensed under the scheme up to an investment limit of Rs. 75 crores. This reopened the import window under the title of export promotion. Thus the upshot of the entire criticism of the 1990 Industrial Policy was that whereas it aimed to promote small scale and agro-based industries, it did not provide adequate safeguards against encroachments by the large

business houses and multinationals which grabbed the market share of small-scale sector in mass consumption goods and seriously jeopardised the employment generation of the SSI Sector.

NEW INDUSTRIAL POLICY - 1991 :

A sweeping change in the form of 'New Industrial Policy' was announced by Indian Government on July 24, 1991. The basic philosophy hidden behind this policy is summarized as 'continuity with change'. The main objectives of the policy are :

(i) To consolidate the strengths built up during the last four decades of economic planning and to build on the gains already made.

(ii) To correct the distortions or weaknesses that may have crept in the industrial structure as it has developed over the last four decades.

(iii) To maintain a sustained growth in the productivity and gainful employments, and

(iv) To attain international competitiveness.

For attaining the aforementioned objectives following two factors will be kept in mind.

(a) The need to preserve environment.

(b) The need to ensure the efficient use of available resources.

Policy Measures :

According to the objectives, government took a series of initiatives in respect of the policies related to the following areas :

(A) Industrial Licensing

(B) Foreign Investment

(C) Foreign Technology Agreement

(D) Public Sector Policy

(E) MRTP Act

(F) Small and Tiny Sector.

(A) **Industrial Licensing Policy** :

In Industrial licensing area, government's role was to exercise control, to provide help and guidance by making essential decisions and eliminate the delay which needed bold and imaginative decisions to remove the restraints on capacity creation (Keeping in mind the national interests of the country).

(i) Industrial licensing will be abolished for all projects except for a number of industries related to strategic concerns and security, social reasons, hazardous chemicals, overriding environmental issues and items of elitist consumption.

(ii) Only a group of six industries where security and strategic concerns predominate will be reserved exclusively for the public sector.

(a) where foreign exchange availability is ensured through foreign equity.

(b) if the CIF value of imported capital goods required is less than 25 per cent of the total value of plant and equipment, upto a maximum value of Rs. 2 crores.

(iii) In locations other than cities having more than one million population industrial approval would not be required from the government except for the industries which requires compulsory licensing.

(iv) Except non-polluting industries, other industries would be located outside 25 kms of the periphery, neglecting prior designated industrial areas.

(v) The mandatory convertibility clause for new projects would not be applicable for term loans from the financial institutions.

(B) **Foreign Investment** :

(i) In order to invite foreign investment in high priority Indsutries 34 such industries were recognized. Such priority is given when the foreign equity covers the Foreign Exchange requirements on capital goods.

(ii) For the export promotion of Indian products in international market, the government would encourage the foreign trading companies to assist the Indian export companies in export activities.

(iii) A Board having special power will be constituted to negotiate with large international firms and approve direct foreign investment in selected areas.

(C) Foreign Technology Agreement :

(i) To give a desired level of technical injection in high priority industries, government would provide an automatic permission of foreign technology upto a lumpsum payment of Rs. 1 crore. 5 per cent royalty for domestic sales and 8 per cent for exports, subjected to total payment of 8 per cent of sales over a ten-year period from date of agreement or seven-year from the commencement of production.

(ii) Similar facilities would be available for other industries if the agreement is not bound to the expenditure of free foreign exchange. Indian companies are to negotiate with their foreign counterparts about their terms of technology as it will be fit for their own commercial judgement.

(D) **Public Sector Policy** :

The public enterprises have shown a very low rate of return on the Capital Investment. This has inhibited their ability to regenerate themselves in terms of new investments as well as in technology development. The result is that many of the public enterprises have become a burden rather than being an asset to the Government. The original concept of the public sector has also under gone considerable dilution. The most striking example is the take over of sick units from the private sector. This category of public sector units accounts for almost one third of the total losses of Central Public Sector Enterprises. Another Category of Public enterprises, which does not fit into the original idea of the public sector being at the Commanding heights of the economy, is the plethora of public enterprises which are in the consumer goods and services sectors.

It is time therefore that the Government adopt a new approach to public enterprises. Units which may be faltering at present but are potentially viable, must be restructured and given a new lease of life. The priority areas for growth of public enterprises in the future will be the following :

(a) Essential infrastructure goods and services.

(b) Exploration and Exploitation of oil and mineral resources.

(c) Technology development and building of manufacturing capabilities in areas which are crucial in the long-term development of the economy and where private sector investment is inadequate.

(d) Manufacture of products where strategic considerations predominate such as defence equipment.

(i) Portfolio of public sector investment will be reviewed with a view to focus the public sector on strategic, high-each and essential infrastructure whereas some reservation for the public sector is being retained there would be no bar for areas of exclusivity to be opened up to the private sector selectively. Similarly, the public sector will also be allowed entry in the areas not reserved for it.

(ii) Public enterprises which are chronically sick and which are unlikely to be turned around will, for the formulation of revival/

rehabilitation scheme, be referred to the Board for Industrial and Financial Reconstruction.

(iii) In order to raise resources and encourage wider public participation, a part of the government's share holding in the public sector would be offered to mutual funds, financial institutions, general public and workers.

(iv) Boards of public sector companies would be made more professional and given greater powers.

(v) There will be greater thrust on performance improvement through the Memorandom of understanding (MOU) system through which managements would be granted greater autonomy and will be held accountable. Technical expertise on the part of the Government would be upgraded to make the MOU negotiations and implementation more effective.

(vi) To facilitate a fuller discussion on performance, the MOU signed between Government and the public enterprise would be placed in parliament. While focussing on major management issues, this would also help place

matters on day to day operations of public enterprises in their correct perspective.

(E) **Monopoly and Restrictive Trade Practices Act (MRTP Act) :**

The complexity was increased due to growing structure of industries and the need was to attain economies of scale to get higher productivity and competition in the market. So, it was decided that threshold limit of assets of MRTP and other dominant companies will be removed which were earlier governed by the MRTP ACt - through the interference of government on its investment decisions.

With this change, the government's approval will not be required for establishment of new undertakings, expansion, merger, amalgamation and takeover of existing firms. Emphasis would be fully concentrated on the control and regulation of monopolistic, restrictive and unfair trade practices.

List of Industries in Respect of Which Industrial Licensing will be compulsory :

1. Coals and lignite
2. Petroleum (other than crude) and its distillation products.

3. Distillation and brewing of alcoholic drinks.
4. Sugar
5. Animal fats and oils
6. Cigars and Cigarettes of tobacco and manufactured tobacco substitutes.
7. Asbestos and Asbestos-based products
8. Plywood, and decorative vaneers and other wood based products such as particle board, medium density board block board.
9. Raw hides and skins, leather, chamois leather and patent leather.
10. Tanned or dressed furskins
11. Motor cars
12. Paper and newsprint except bagasse-based units
13. Electronic aerospace and defence equipments of all types.
14. Industrial explosives, including detonating fuse, safety use, gun powder, nitrocellulose and matches.
15. Hazardous chemicals
16. Drugs and pharmaceuticals (According to drug policy)
17. Entertainment Electronics (VCRs, Colour TVs, CD Players, Tape Recorders).
18. White goods (Domestic refrigerators), Domestic Dish, Washing Machines, Programmable domestic

washing machines, microwave ovens, Air conditioners).

NOTE : The compulsory licensing provisions will not be applied for the small scale units for any items reserved for exclusive manufacture in the sector.

Proposed list of Industries reserved for the public sector :

1. arms and ammunitions and allied items of defence equipments defence aircrafts and warships.
2. Atomic Energy
3. Coal and lignite
4. Mineral oils
5. Minerals specified in the schedule of atomic energy (Control of production and use) order 1953.
6. Railway Transport.

Having examined both the aspects of the meaning of the term 'Industrial Policy', IPRs of 1948 and 1956 in particular and a number of subsequent Industrial Policy Statements, most of which centred round the IPR of 1956 in letter and spirit, we now turn to discuss the type of industrial development the country had upto the end of the 'Eighties'. Briefly,

Indian Government exactly upto the mid-eighties accorded commanding heights to the PSUs by investing huge public funds in them and extending their activities to almost every sphere of life. Despite constructive criticism in the Parliament and outside the PSUs failed to provide reasonable rate of return on the invested funds and the 'Public Sector' in a whole proved to be a white elephant to the Government. It is against this background that the following chapter examines the growth and development of PSUs through various Five Year Plans.

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CHATPER- II

GROWTH OF PUBLIC SECTOR UNDERTAKINGS - HISTORICAL PERSPECTIVE

CHAPTER - II

GROWTH OF PUBLIC SECTOR UNDERTAKINGS - HISTORICAL PERSPECTIVE

It has been mentioned in the previous chapter that industrial development of any nation depends, to a large extent, on its 'Industrial Policy' and, as such, India is no exception to this general rule. Though efforts were made several times towards this end but nothing concrete could be done in the matter till the country became independent in 1947. It was in 1948 that the first Industrial Policy Resolution was passed which empowered the Government to play an active part in the field of industrial development. As many other countries of the world, India was also so much influenced by the 'Socialistic Philosophy' of development that in 1954 the country adopted 'Democratic Socialism' and in 1956 passed another IPR which gave absolute powers to the Government regarding the starting, taking over, managing, controlling and participating in any kind of industry it deemed fit.

The terms 'Public Sector', Public Enterprises' Government Undertakings', State-owned Enterprises' and 'Public Undertakings' are used synonymously. In France, Public Enterprises mean industrial and commercial undertakings of the Government. In USA, Public Sector means all government agencies which are

engaged in providing specific goods and services. In U.K. Public Corporations are the public enterprises. In Italy, public enterprises are those which are run either by local bodies or by State Government.[1] According to A.H. Hanson, public enterprises mean state ownership and operation of industrial, agricultural, financial and commercial undertakings.[2] Similar definitions by a number of authors of books and encyclopaedias and development organizations may be given but the gist is almost the same. In India, Public Sector Enterprises include Departmental Undertakings, Corporations and Public Limited Companied. However, in our discussion we shall concentrate on the performance and problems of non-departmental undertakings of the Central Government which are named as industrial and commercial undertakings though they have entered the field of production and distribution of consumer goods as well. Another reason for our concentration on industrial and commercial undertakings of the Central Government is that the Ministry of Finance (Bureau of Public Enterprises), Ministry of Information & Broadcasting and Commerce Year Book of Public Sector all publish data on the aforementioned undertakings and leave out the departmental undertakings.

Original of Public Sector Undertakings :

U.K. is birth place of Public Corporation - an oldest form of public sector enterprises. In 1908, the Port of London Authority was established as a Prototype of a 20th Century Public Corporation. In 1919, Electricity Commission and Forestry Commission were constituted. In between 1926 and 1949 the important corporations established or nationalized were British Broadcasting Corporation (1926); London Passenger Transport Board (1933), National Coal Board (1946), Iron & Steel Corporation and the British Steel Corporation (1949). The British pattern of corporation has been corporate body created by public authority with defined powers and functions, and financially independent. It is administered by a board appointed by the public authority, to which it is answerable. Its capital structure and financial operations are similar to those of public company but its stock holders retain no equity interests and deprived of voting rights and power of appointment of the board.[3] Thus, as held by justice K.K. Mathews a public corporation is a legal entity established normally by Parliament and always under legal authority, usually in the form of special statute, charged with the duty of carrying out specified government functions in the

national interest, those functions being confined to a comparatively restricted field and subject to control by the executive while the Corporation remains justifically an independent entity not directly responsible to Parliament."[4]

In the earstwhile USSR, another type of PSUs developed. It was all through nationalization and there was no provision of private enterprises in the economy. The large number of production and distribution came under the state ownership, management and control, thus putting an end to the private sector for all practical purposes. Industrial management, transport and trade was not directly conducted by Ministries or Government Departments of Local Soviets, but by independent Public Corporation.[5] The speed of nationalization began in 1918 when the entire economy came under the state ownership. There, the Five Year Plans started in 1927. In 1932, the peoples commissariats were set up and thereupon totalitarian type of Corporations grew throughout the country. China and Yugoslavia, influenced by the Russian experiences and following its footsteps, took over management and control of all sorts of industries. The USSR, as a nation, however, collapsed in 1991 giving birth to various Central Asian Independent Republics.

In the United States of America the scope of public sector enterprises is very much limited. The first PSU was established in 1930 when postal system was directly owned by the State Government. There, the people still debate about the share or position of PUSs in the economy. Actually they do not like PSUs except a few permitted by law.

PSU's in Developing Nations :

With the advent of steam power Europeans started developing naval power and the Muslims (Ottoman Empire) were relegated to the background. After getting upper hand, West European countries started developing machines to be used in the process of manufacturing replacing, to a large extent, manual labour. It gave rise to mechanization which led to mass-scale production. The enterprising spirit and keen competition, amongst Britain, France, Spain, Portugal, Germany, Holland and Italy etc. compelled them to search for new areas for new materials which could keep the wheels of their machines move. In that competition the West European countries, one after the other, colonized the whole world for their benefit. In addition to procuring raw materials for their home industries, these countries killed the industries of

all 'present developing nations'. For centuries together the foreign rule over Asian, African and Latin American countries kept them only primary commodity producing countries. These masters exploited the labour and raw materials from these countries and sold their manufactured products in the same market at very exorbitant rates. Of course, Railways and Roads and other means of communications were developed in these countries but that was more for looting these countries rather than for the benefit of local population.

As Adam Smith, the father of Economics, had advocated free economy (laissez faire) there were no restrictions on the movements of goods, services or personnel. In exchange for their manufactures these countries enmassed huge quantities of gold and silver (only gold and silver coins were in circulation) in their home lands and out of their contempt for the precious metals, did not allow them to move out of their treasuries which led not only to the world-wide depression of the 'Thirties' but to the ultimate collapse of the bullion standards. It may also be mentioned here that these restrictions on the movement of the gold and silver were the main economic reasons which led to the outbreak of World War II in September

1939. This is, in summary, how the world poverty was created.

The independence movements of the mid-twentieth century resulted in granting of independence to these countries by the aforementioned colonial powers. After getting independence the governments of developing countries started paying proper attention to the development strategies suitable for their countries. In general, these countries came under the influence of communism and embarked upon socialistic approach in their development planning process. Following the earstwhile Russian model, these developing nations practically killed the private initiative. Naturally, for the provision of basic facilities huge investments were required which, under the circumstances, the private sector was not ready to undertake. India, being leader of the developing world and very much influenced by the Russian industrial development, accorded commanding heights to the PSUs in its development process after Pandit Nehru's Visit to the Soviet Union in 1954.

In historical perspective, in the middle era, India was centre of attention of all eyes in the West and it was known as Golden Bird. It was famous for its

steel and clothing. The iron pillor in Delhi near 'Qutub Minar' baffled many metallurgists as to how a pillor of this huge size and rustless quality could have been cast in those far off days. During that era, Decca Muslin was very favourite of western women. In the later part of the Medieval Period, mining also came in the ambit of state activity and a number of state monopolies such as manufacture of all kinds of ammunition, particularly lead and salt petre were created. The royal workshops occupied an important place in the economy. No single unit in the private enterprise was big enough in size which could be compared to the Royal Workshop, in equipment and organization also, the private enterprise units were a poor match to the 'Karkhanas'. The whole medieval India was somehow or the other engaged in production of consumer goods as well as arms and ammunitions.[6]

The basis for public enterprises was started by two groups before independence. One was British government and the other Indian National Congress in the colour of Swadeshi Movement. British government never thought for the industrial development in India as they, in fact, destroyed the industry of the country by exporting raw materials like jute, cotton, tea and oil seeds etc. to Britain which enabled it to capture a place in the world trade.[7]

In fact, the first World War blockaded the supply and Naval warfare needed by the Britishers and they thought for the Indian industrialization. Thus, they set up the ammunition and ordinance factories which safeguarded their trade routes. In 1916 Indian Industrial Commission recommended : 'It is vital, therefore, for government to establish those industries whose absence exposes us to grave danger in times of war'.[8] In the light of these recommendations, the British government started ordinance factories and took over the management of Indian Railways in 1922. Later, second World War made them more expanded. Some new industries were started according to the supply of their war needs, then the industries for manufacturing ferrous and non-ferrous alloys and metals, diesel engines, bicycles, sewing machines, machine tools and centering tools were set up granting protection to some of these. 'Planning and Development' department was established in 1945. The industrial policy statement by Lord Wavell described that all ordinance factories, public utilities, railways and basic industries should be nationalized if the private capital is not coming forward. The mixed sector constituted the industries like shipping, locomotives and shipment while aircrafts, tractors, automobiles,

iron and steel and electric machinery were included in the State Sector.

The Swadeshi Movement in which Indian National Congress drew the experts from different provinces to think over 'National Reconstructions and Social Planning', agreed that the national problems do not have their concrete solution on the provincial basis. In 1938 a conference of Provincial Ministers of Industries was held to seriously consider the national issues like removal of mass poverty, unemployment national defence and rapid pace of economic growth. A National Planning Committee was also formed under the chairmanship of Pandit Jawaharlal Nehru. The committee came to the conclusion that the abovementioned national problems can only be solved through a comprehensive scheme of rapid industrialization. The committee classified the industries into the following three categories :

(i) Defence, (ii) Key, and (iii) Public Utilities.

(i) Defence industries should be under public sector to maintain secrecy and stop the external aggression.

(ii) Key industries may be either state regulated or state-owned.

(iii) Public utility industries should fall under the category of State Enterprises.

Individual and group efforts were going on preparing plans and schemes for the overall rapid development of the country, while Bombay Plan of industrialists contemplated for doubling the per capita income over the next fifteen years. Shri M.N. Roy prepared a comprehensive plan known as 'Peoples Plan, for rapid agricultural development of the country. Apart from these various other schemes and plans were also put forward but shortly India achieved her independence in 1947 and destiny of the country came in the hands of the Indian Government.

A few industries like departmental undertakings were set up before independence. They were under public sector as they were important from the defence and strategic points of view and could not be given in the hands of private people. These industries were :

(i) Garden Reach Workshop Limited (1934)
(ii) Mazagon Dock Limited (1934)
(iii) Moghul Line Limited (1938)
(iv) Fertilizers and Chemicals Limited (1943)
(v) National Newsprints and Paper Limited (1947).

Besides these five nationalized undertakings some new units were also set up. The first public

sector undertaking which was set up after independence in August 1950 is Indian Rare Earths Limited. Its function was to recover uranium and thorium contained in minerals. The second PSU set up after independence was the Indian Telephone Industries Limited. After these 14 PSUs were set up during the First Five Year Plan. Thereafter, acting upon the Industrial Policy Resolution, 1956 which dominated the Indian planning process upto the last of 'Eighties' the government set up 246 PSUs upto the beginning of the 'Nineties', whose working was entrusted to the Bureau of Public Enterprises.[9]

As already mentioned, PSUs originated in the U.K. in the 'twenties' and soon spread not only to other West European countries and the USSR but also to the USA. Basically, these corporations were established by the governments of these countries to embark upon those activities which were essential but simultaneously required huge investments which the private sector was not ready to undertake in view of low or no rate of return on their investments. The mid-twentieth century national movements and the consequent grant of independence to a number of Asian, African and Latin American countries induced these newly independent countries to set up same types of

Public Corporations in their countries with some modifications. In fact, these PSUs were set up by the developing countries as tools of economic growth. Thus, nations all over the world regardless of size and ideology, have increasingly availed of public enterprises as an instrument for social and economic development.[10]

It has already been pointed out that, like other colonies, India was also extensively exploited by the Britishers so much so that at the time of independence its economy was very weak and trembling. Our planners adopted the mid-way between capitalism and socialism known as 'Mixed Economy' wherein private as well as public sector could coexist and work together for the overall industrial development of the country. As a matter of fact, exigencies of the time were such that there was no other alternative for the country except to adopt the 'Mixed Economy'. Thus, the following two types of PSUs were set up :

(a) PSUs under the Central Government,

(b) PSUs under the State Governments.

(a) **PSUs under the Central Government** :

The PSUs in the Indian economy have registered a phenomenal growth since independence. Table No. 2.1

TABLE NO. 2.1

Number of PSUs and Investment made in them during different plans

Sl. No.	At the beginning of Plan	No.of PSUs	PSUs added During the Plan	Total investment (Rs. in crore)
1.	First (1.4.51)	5		29
			16	
2.	Second (1.4.56)	21		81
			26	
3.	Third (1.4.61)	47		948
			37	
4.	Fourth (1.4.69)	84		3897
			38	
5.	Fifth (1.4.74)	122		6237
			57	
6.	Sixth (1.4.80)	179		18150
			42	
7.	Seventh (1.4.85)	221		42673
			25	
8.	Eighth (1.4.92)	246		135445
			-1	
9.	As on 31.3.93	245		146971
			0	
10.	As on 31.3.94	246		159307
			-1	
11.	As on 31.3.95	245		173292
			-2	
12.	As on 31.3.96	243		178628

SOURCE: Public Enterprises Survey 1992-93, 1995-96, Volume 1, Govt. of India, Ministry of Industry, Department of Public Enterprises, New Delhi, P. 6.

presents data regarding the number of PSUs including the departmental undertakings and the money invested in them during the plan period while Table No. 2.2 is concerned with all non-departmental industrial and commercial undertakings of the Central Government set up during different plans and their growth. The number of PSUs under the Central Government was only five at the beginning of First Five Year Plan, i.e. on April 1, 1951 with a total investment of Rs. 29 crores.[11] Growth of investment in PSUs right from the initiation of the First Five Year Plan to March 31, 1996 has been shown in Chart No.2.1. In fact, the First Five Year Plan was a rehabilitation and reconstruction plan' for the partition-torn economy of the country. As such, pace of industrial progress was very slow. The expansion of PSUs started from 1956 Industrial Policy Resolution. It is, indeed, this IPR of 1956 which assigned the role of 'commanding heights' to the PSUs and continued to be considered as the 'economic constitution of India' and dominated the economic scence of the country atleast upto 1985 when late Rajiv Gandhi started the process of liberalization. The Second Five Year Plan document claimed that the growth of PSUs would accelerate the rate of economic growth, speed up industrialization, ensure equitable

TABLE NO. 2.2

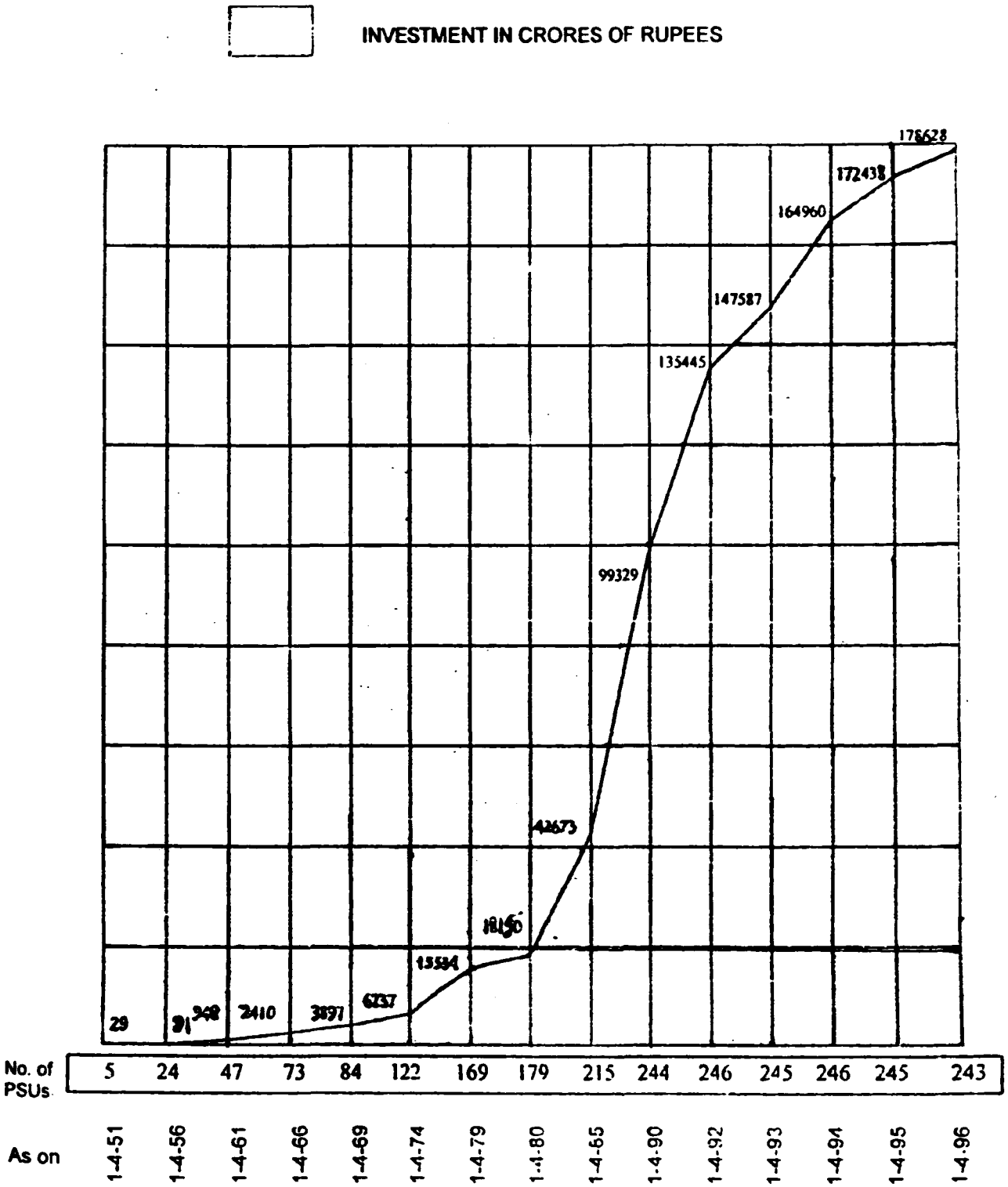
Growth Public Sector undertakings during Plan Period

Sl. No.	At the Beginning of Plan	No. of PSUs	Rate of Growth	% Increase
1.	First	5	-	-
2.	Second	21	4 Times	320.00
3.	Third	48	2 Times	128.57
4.	Fourth	85	2 Times	77.08
5.	Fifth	122	1.5 Times	43.53
6.	Sixth	186	1.5 Times	52.45
7.	Seventh	221	1.3 Times	25.27
8.	31.03.1990	244	-	-
9.	31.03.1992	246	-	-

SOURCE : Annual Reports on working of Industrial and Commercial undertakings of Central Government and Commerce Year Book of Public Sector 1984-85, Economic Survey, 1991-92 and 1992-93.

CHART NO. 2.1

GROWTH OF INVESTMENT IN PUBLIC SECTOR



SOURCE: Public Enterprises Survey, Bureau of Public Enterprises, Ministry of Industry, Government of India, New Delhi, 1995-96.

distribution, remove disparities in income and wealth, prevent concentration of economic power in the hands of a few, promote balanced regional development and provide essential supplies to the consumers.

As per details given in Table 2.1 during the First Five Year Plan (1.4.1951 to 31.03.1956) sixteen new PSUs were set up with an investment of Rs. 52 crores. In fact, Indian Rare Earths Ltd. and Indian Telephone Industries Ltd. were established by the Central Government after the attainment of independence but before launching of the First Five Year Plan on April 1, 1951. Fourteen industries were either started or taken over during the First Five Year Plan period. Some of them included Hindustan Cables Ltd., Hindustan Salt Ltd., National Industrial Development Corporation Ltd., Bharat Electronics Ltd., Hindustan Antibiotics Limited and Hindustan Insecticides Limited etc.

During the Second Five Year Plan period twenty six new PSUs were established with an estimated investment of Rs. 867 crores. These PSUs included Pyrites, Phosphates and Chemicals Limited, Hindustan Organic Chemicals Limited, Hindustan Teleprinters Limited, Tungbhadra Steel Products Limited, Shipping Corporation of India Limited, National Instruments

Limited, the Mandya National Paper Mills Limited, Heavy Engineering Corporation Limited, Jessop & Co., Limited, Rehabilitation Industries Corporation Limited, Central Warehousing Corporation, the State Trading Corporation of India Limited etc.

During the Third and Fourth Five Year Plan periods thirty-seven and thirty-eighth PSUs were set up by the Central Government with respective investments of Rs. 2949 and Rs. 2340 crores. Some of the important PSUs of the Third Plan were National Seeds Corporation Limited, Fertilizer Corporation of India Limited, Indian Drugs and Pharmaceuticals Limited, Minerals and Metals Trading Corporation of India Limited, Bharat Earth Movers Limited, Hindustan Aeronautics Limited, Modern Food Industries Limited, Food Corporation of India Ltd., Bharat Heavy Electricals Limited, Mining and Allied Machinary Corporation Limited, Triveni Structurals Limited, Cement Corporation of India Limited, Sambhar Salt Limited, Instrumentation Limited, Cochin Refineries Limited, Hydro Carbons India Limited, Indian Oil Blending Limited, Indian Oil Corporation Limited, Madras Refineries Limited, Bridge and Roof Corporation (India) Limited, Engineers India Limited, Bharat Aluminium Corporation Limited, Metal Scrap Trade

Corporation Limited, Hindustan Steel Works Corporation Limited, Handicrafts and Handlooms Exports Corporation of India Limited etc. while those set up during the Fourth Plan period included State Farms Corporation Limited, Cahsew Corporation of India Ltd., Mica Trading Corporation of India Ltd., Projects and Equipment Corporation Limited, Tea Trading Corporation of India Limited, Mishra Dhatu Nigam Limited, Bharat Dynamics Limited, Bharat Pumps and Compressors Limited, Richardson & Cruddas (1972) Ltd., Scooters India Limited, Bharat Wagon and Engineering Company Limited, Hindustan Paper Corporation Limited, Nagaland Pulp and Paper Company Limited. Bharat Opthalmic Glass Limited, Tannery & Footwear Corporation of India Limited, Water and Power Consultancy Services (India) Limited, Rural Electrification Corporation Limited, I.B.P. Company Limited, Indian Petro-chemicals Corporation Limited, Cochin Shipyard Limited, Delhi Transport Corporation Ltd., Artificial Limps Manufacturing Corporation of India Ltd., Bharat Cooking Coal Limited, Bharat Gold Mines Limited, Mineral Exploration Corporation Limited, Steel Authority of India Limited, Metallurgical and Engineering Consultants (India) Limited, Cotton Corporation of India Limited, Jute Corporation of

India Limited, Air India Charters Limited, International Airports Authority of India Limited, Hotel Corporation of India Limited, Housing and Urban Development Corporation Ltd., National Insurance Company Limited, New India Assurance Company Limited, United India Insurance Company Limited etc.

The Fifth Five Year Plan period witnessed the highest number of PSUs (57) set up by the Central Government with an estimated investment of Rs. 11913 crores. These PSUs included, National Fertilizers Limited, Smith Stanistreet and Pharmaceuticals Limited, Hindustan Fertilizers Corporation Limited, Rashtriya Chemicals and Fertilizers Limited, Projects and Development India Limited, Punjab Maize Products Limited, Rajasthan Drugs & Pharmaceuticals Limited, U.P. Drugs and Pharmaceuticals Company Limited, Trade Fair Authority of India Limited, Telecommunications Consultants (India) Limited, Braitliwaites and Company Limited, Burn Standard Company Limited, Bharat Brakes and Valves Limited, H.M.T. (International) Limited, Lagan Jute Machinery Company India, Bharat Leather Corporation Limited, National Film Development Corporation Limited, National Hydro Electric Power Corporation Limited, National Thermal Power Corporation Limited, North Eastern Electric Power Corporation Limited, Bongaigaon Refinery and Petro-chemicals

Limited, Bharat Petroleum Corporation Limited, Hindustan Petroleum Corporation Limited, Indian Railway Construction Company Limited, Rail India Technical & Economic Services Limited, Dredging Corporation of India Limited, Indian Road Construction Corporation Limited, Central Coalfields Limited, Central Mini Planning & Design Institute Limited, Coal India Limited, Eastern Coal Fields Limited, Western Coalfields Limited, Kudremukh Iron Ore Company Limited, Indian Iron & Steel Company Limited, Bharat Refractories Limited, Manganese Ore (India) Limited, IISCO Ujjain Pipe and Foundary Company Limited, Sponge Iron India Limited, Central Cottage Industries Corporation India Limited, North Eastern Handicrafts and Handloom Development Corporation Limited, NTC (Andhra Pradesh, Karnataka, Kerala and Mahe) Limited, NTC (Delhi, Punjab & Rajasthan) Limited, NTC (Maharashtra North) Limited, NTC (Gujarat) Limited, NTC (Madhya Pradesh) Limited, NTC (Tamil Nadu and Pondicherry) Limited, NTC (Uttar Pradesh) Limited, NTC (West Bengal, Assam, Bihar and Orissa) Limited , C.M.C. Limited, Electronics Trade and Technology Development Corporation Limited, Semi Conductor Complex Limited, Central Electronics Limited etc.

The total number of PSUs set up by the Central Government came down to forty-two during the Sixth

Plan period with an investment of Rs. 24523 crores. These PSUs included, Southern Pesticides Corporation Limited, Goa Antibiotics & Pharmaceuticals Limited, Karnataka Antibiotics and Pharmaceuticals Limited, Paradeep Phosphates Limited, Bengal Chemicals and Pharmaceuticals Limited, Bengal Immunity Limited, Gardamom Trading Corporation of India Limited, Educational Consultants (India) Limited, Hindustan Vegetable Oils Corporation Limited. North Eastern Regional Agricultural Marketing Corporation Limited, Hospital Services Consultancy Corporation (India) Limited, Bharat Process & Mechanical Engineers Limited Weighbird (India) Limited, Maruti Udyog Limited, HMT Bearings Limited, National Bicycle Corporation of India Limited, Rajasthan Electronics and Instruments Limited, Cycle Corporation of India Limited, Hindustan Newsprinting Limited, Damodara Cement and Slag Limited, Tyre Corporation of India Limited, Oil India Limited, Gas Authority of India Limited, National Aluminium Company Limited, Neelanchal Ispat Nigam Limited, Rashtriya Ispat Nigam Limited, Vijaynagar Steel Limited, National Jute Manufacturing Corporation Limited, Brushware Limited, The British India Corporation Limited, The Elgin Mills Company Limited, National Handlooms Development Corporation Limited etc.

During the Seventh Five Year Plan the Government set up twenty-five PSUs with an estimated investment of Rs. 92772 crores. The PSUs included, Bharat Bhari Udyog Nigam Limited, Bharat Yantra Nigam Limited, Indian Railway Finance Corporation Limited, Nuclear Power Corporation Limited, Hindustan Packaging Company Limited, Mahanagar Telephone Nigam Limited, Videsh Sanchar Nigam Limited, Pawan Hans Limited, Northern Coal Fields Limited, South Eastern Coal Fields Limited, Power Finance Corporation Limited, Tamil Nadu Tele-communications Limited, Nathpa Jhakri Power Corporation Limited, Tehri Hydro Development Corporation Limited, Container Corporation of India Limited, Bharat Immunologicals & Biological Corporation Limited, J&K Mineral Development Corporation Limited, Manipur State Drug & Pharmaceuticals Limited, Donyi Polo Ashok Hotel Corporation Limited, National Power Transmission Corporation Limited, etc.

It brought the total number of PSUs to 246 and total investment in them to Rs. 135445 crores.

It appears from the above table that no new PSUs were set up during the Eighth Plan period though investments in the already set up PSUs had to be made for renewals, replacement and modernizing them. In

In fact the worthwhileness of these PSUs had been questioned in view of their poor performance. Moreover, some of the PSUs which earned huge profits were actually monopoly profits and due to inter government departmental transfers rather than their actual performance in the real sense of term while the aggregate sum of money invested in them amounted to Rs. 178628 crores as on March 31, 1996. Again with the poor record of performance Indian PSUs had practically covered all segments of the Indian economy leaving no room for the growth of private sector. Fortunately, with the dismemberment of the Soviet Union almost all the socialist countries said goodbye to the government management and control of these public corporations and resorted to the market-oriented mechanism. The Government of India also, for the first time after independence, announced liberalization measures and integration of Indian economy with the world economy in July 1991.

(b) **PSUs Under the State Government** :

The table 2.3 presents data regarding the State Public Sector Undertakings during plan period. the number of Indian State-level public sector undertakings (SLPSUs) were only 32 during the first

TABLE NO. 2.3

Growth of SLPSUs during the Five Year Plan Period

State	I	II	III	IV	V	VI	VII	Total
Andhra Pradesh	3	6	6	7	6	6	2	36
Arunachal Pradesh	-	-	-	-	2	1	-	3
Assam	3	5	9	9	7	10	-	43
Bihar	-	3	5	13	17	7	2	47
Goa	-	-	-	-	2	3	2	7
Gujarat	-	-	6	10	19	13	-	48
Haryana	-	-	1	6	6	6	3	22
Himachal Pradesh	-	1	1	2	7	6	-	17
Jammu & Kashmir	2	-	2	5	6	1	-	16
Karnataka	7	5	9	15	13	9	-	58
Kerala	3	4	14	23	28	15	3	90
Madhya Pradesh	1	-	5	9	8	9	-	32
Maharashtra	1	4	13	12	11	7	3	51
Manipur	-	-	-	2	2	3	1	8
Meghalaya	-	-	-	2	3	3	1	9
Mizoram	-	-	-	-	-	1	2	3
Nagaland	-	-	1	2	1	1	-	5
Orissa	3	3	4	3	11	8	1	33
Punjab	-	3	3	6	6	5	2	25
Rajasthan	1	6	6	7	8	8	-	36
Tamil Nadu	1	4	8	9	10	10	2	44
Tripura	-	-	-	1	3	2	1	7
Uttar Pradesh	6	6	10	14	11	10	4	61
West Bengal	1	3	6	11	18	14	-	53
Total	32	53	109	168	205	158	29	784

SOURCE : Data Bank of SLPE, Institute of Public Enterprises, Hyderabad.

Five Year Plan period out of which 7 were in Karnataka, 6 in Uttar Pradesh, 3 each in Andhra Pradesh, Assam, Kerala and Orissa, 2 in Jammu & Kashmir and one each in Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu and West Bengal. During the Second Plan period total number of SLPSUs was 53 out of which six each were in Andhra Pradesh, U.P. and Rajasthan, five each in Assam and Karnataka; four each in Kerala, Maharashtra and Tamil Nadu, three each in Bihar, Orissa, Punjab and West Bengal and one in Himachal Pradesh.

During the Third Plan period the number of SLPSUs increased to 109. Out of these, fourteen such units were set up by Kerala, thirteen by Maharashtra, ten by U.P., nine each by Assam and Karnataka, eighth by Tamil Nadu, six each by the States of Andhra Pradesh, Gujarat, Rajasthan and West Bengal; five each by Bihar and Madhya Pradesh, four by Orissa, three by Punjab, two by Jammu and Kashmir and one each by the States of Haryana, Himachal Pradesh and Nagaland.

During the Fourth Five Year Plan period the number of SLPSUs set up in different states increased to 178. Of these, 23 units were set up by Kerala, 15 by Karnataka, 14 by Uttar Pradesh, 13 by Bihar, 12 by Maharashtra, 11 by West Bengal, 10 by Gujarat, 9 each

by Assam, Madhya Pradesh and Tamil Nadu, 7 by Andhra Pradesh, 6 each by Haryana and Punjab, 5 by Jammu and Kashmir; 3 by Orissa, 2 each by Himachal Pradesh, Manipur, Meghalaya, Nagaland and one by Tripura. Likewise, during the Fifth Five Year Plan period the number of SLPSUs increased to 205. Of these SLPSUs, 28 such units were set up by Kerala, 19 by Gujarat, 18 by West Bengal, 17 by Bihar, 13 by Karnataka, 11 each by Maharashtra, Orissa and Uttar Pradesh 10 by Tamil Nadu, 8 each by Madhya Pradesh and Rajasthan, 7 each by Assam and Himachal Pradesh, 6 each by Andhra Pradesh, Haryana, Jammu & Kashmir and Punjab, 3 each by Meghalaya and Tripura, 2 each by Arunachal Pradesh, Goa and Manipur and one by Nagaland.

During the Sixth Five Year Plan period, the total number of SLPSUs came down to 158, the statewise distribution is: 15 units in Kerala, 14 in West Bengal, 13 in Gujarat, 10 each in Assam, Tamil Nadu and Uttar Pradesh; 9 each in Karnataka and Madhya Pradesh, 8 each in Orissa and Rajasthan; 7 each in Bihar and Maharashtra, 6 each in Andhra Pradesh, Haryana and Himachal Pradesh; 5 in Punjab; 3 each in Manipur and Meghalaya; 2 in Tripura and one each in Arunachal Pradesh, Jammu & Kashmir, Mizoram and Nagaland. During Seventh Five Year Plan period the

number of SLPSUs substantially came down to 29. Of these, Uttar Pradesh set up 4 such units while Haryana, Karnataka and Maharashtra set up 3 units each followed by Andhra Pradesh, Bihar, Goa, Mizoram, Punjab and Tamil Nadu which set up 2 units each. Meghalaya and Tripura set up one unit each.

It will be further seen from Table No. 2.3 that total number of SLPSUs upto the end of Seventh Five Year Plan was 784 with the highest such units being located in Kerala followed by Uttar Pradesh, Karnataka, West Bengal, Maharashtra, Gujarat, Bihar, Tamil Nadu and Assam.

Table number 2.4 sets out data of the SLPSUs by sectors - broadly divided into commercial, development and welfare. Of the 754 reporting SLPSUs 371 were commercial SLPSUs while 290 and 93 belonged to development and welfare sectors respectively.

Having traced the origin and growth of PSUs in the U.K. and elsewhere, we have examined their history of growth in Indian perspective in the present chapter. The IPR of 1956 dominated the Indian industrial scene for about four decades and the successive Five Year Plans accorded the PSUs 'commanding heights'. The Indian States, following the

TABLE NO. 2.4

Distribution of State Public Enterprises by Sectors

State	Sector			
	Commercial	Development	Welfare	Total
Andhra Pradesh	13	19	4	36
Arunachal Pradesh	1	2	-	3
Assam	21	16	6	43
Bihar	21	20	6	47
Goa	4	3	-	7
Gujarat	25	21	2	48
Haryana	11	8	3	22
Himachal Pradesh	11	6	-	17
Jammu & Kashmir	9	7	-	16
Karnataka	13	31	5	58
Kerala	63	17	10	90
Madhya Pradesh	11	10	11	32
Maharashtra	20	19	12	8
Manipur	3	3	2	8
Meghalaya	5	4	-	9
Mizoram	-	2	1	5
Orissa	15	16	2	33
Punjab	7	14	4	25
Rajasthan	19	13	4	36
Tamil Nadu	20	21	3	44
Tripura	5	1	1	7
Uttar Pradesh	21	24	16	61
West Bengal	31	22	-	53
Total	371	290	93	754

SOURCE : Same as Table No. 2.3.

footsteps of the Central Government in this regard, spent enormous resources for getting up and running the SLPSUs. How far they have contributed to the country's industrial development will be examined in the following chapter which deals with the performance of PSUs.

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CHATPER- III

PERFORMANCE OF PUBLIC SECTOR UNDERTAKINGS

CHAPTER - III

PERFORMANCE OF PUBLIC SECTOR UNDERTAKINGS

In the foregoing chapter we had remarked that the States of the Indian Union following the footsteps of the Central Government with respect to the expansion of Public Sector Undertakings, spent enormous scarce resources for setting up State Level Public Sector Undertakings for covering up almost every aspect of economic activity. How far the PSUs in the Central Sector been able to achieve the desired results forms the subject matter of this chapter. The performance of the PSUs has been examined in relation to the physical targets, financial evaluation and their overall assessment. Combined as well as separate performance of Manufacturing and Service Group of enterprises has been fully examined alongwith the top ten profit earning and loss-making enterprises.

The Department of Public Enterprises monitors half-yearly performance of PSUs based on flash results reported by them. It informs the government about their consolidated performance so that early action could be taken for improving the performance of loss making PSUs as well as other PSUs wherever needed. Set up in late 1979, the Department's early warning system

of reporting on performance has the twin objectives of (a) creating an awareness among the public enterprises to establish benchmarks for their own performance appraisal and (b) keeping the Government informed well in time of the state of affairs in the public enterprises so that suitable corrective measures are taken when needed.

The PSUs are required to furnish information relating to certain selected indicators of performance to the Department at the end of each quarter. These indicators include (i) quantitative production data in respect of major items (ii) sales value, (iii) capital employed (iv) gross profit (v) provision for depreciation, interest and tax (vi) net profit and (vii) inventory levels. These data, when consolidated, enable a quick assessment of the performance of the public sector undertakings over a certain period. In addition they indicate the trend, when compared to the position in the corresponding period of the previous year, leading to diagnostic studies of the problems faced by them and setting in motion remedial steps necessary to correct the situation.

PHYSICAL PERFORMANCE

The development and growth of PSUs in India has been a continuous process right from the

initiation of planning in 1951 to the end of the Seventh Five Year Plan. Again, the Government of India did not strictly follow the IPR of 1956 and tried to tighten its grip over the whole economy of the country despite the fact that it encountered failures on many fronts. Hence, comparable data regarding the physical performance of this PSUs are not available in continuous basis. Moreover, their performance has been changing in accordance with the overall state of the nation's economy itself. In certain years the PSUs have performed well while in other years they have presented a dismal picture. Again, product/item-wise pattern of production of these PSUs has also been mixed. Figures in respect of production and achievement of targets in some major sectors are furnished in Table 3.1 from 1982 to 1995 with intermittent gaps.

It will be seen from the above table that for the year 1982 the production target fixed for Steel Ingots was 3851 thousand tonnes while actual production was 3075 thousand tonnes bringing the percentage target utilisation to 79.84. In 1986, the percentage target utilisation came to 74.6. However, in 1988 percentage target utilisation of steel ingot considerably improved to 91.5. But again in 1989 the

TABLE NO.3.1 COMPARATIVE POSITION OF TARGET AND ACTUAL PRODUCTION, APRIL - SEPTEMBER - 1982 - 1995

Group	Unit	1982	1986	1988	1989	1991	1992	1995
Steel Ingot								
Target	Th.T.	3851	4100	4355	4568	4702	4720	5437
Actual	Th.T.	3075	3057	3984	3792	4545	4699	5013
% Target utilisation		79.84	74.6	91.5	83.0	96.7	99.6	92.2
% Variation over previous year		-2.75	-3.56	18.15	-4.8	13.4	3.4	3.7
Saleable steel								
Target	Th.T.	3052	3425	3558	3782	3740	3881	4409
Actual	Th.T.	2553	2534	3375	3125	3727	3911	4470
% Target utilisation		83.65	74.0	94.9	82.6	99.7	100.8	101.4
% Variation over previous year		-3.36	-2.87	15.98	-7.4	14.5	4.9	2.9
Raw Coal CIL								
Target	Lakh.T.	527.2	-	706	782	837	858	992
Actual	Lakh.T.	503.6	-	709	756	822	854	985
% Target utilisation		95.52	-	100.4	96.7	98.2	99.5	99.3
% Variation over previous year		4.93	8.61	6.94	6.62	8.7	3.9	8.8
Lignite NLC								
Target	Lakh.T.	29.4	621.50	51	52	60	66	77
Actual	Lakh.T.	33.8	599.10	54	54	64	61	87
% Target utilisation		114.96	96.4	105.9	103.8	106.7	92.4	113.0
% Variation over previous year		14.18	9.99	20.00	Nil	8.5	-4.7	26.1
Aluminium								
Target	Tonnes	25050	48400	49	48	48.2	47.2	-
Actual	Tonnes	20913	47508	47	46	46.1	45.8	-
% Target utilisation		83.48	98.2	95.9	95.8	95.6	97.0	-
% Variation over previous year		22.70	2.61	9.30	-2.1	0.7	-0.7	-
Zinc								
Target	Tonnes	28320	29250	25000	28200	39.1	-	-
Actual	Tonnes	21452	28361	23638	30263	34.7	-	-
% Target utilisation		75.74	97.0	94.6	107.3	88.7	-	-
% Variation over previous year		-12.00	13.02	-0.45	28.0	-4.1	-	-
Lead								
Target	Tonnes	6800	11000	11300	11725	15.6	-	-
Actual	Tonnes	5852	7642	8154	9885	13.3	-	-
% Target utilisation		86.05	69.5	72.2	84.3	85.3	-	-
% Variation over previous year		-6.36	6.84	-7.57	21.2	17.7	-	-
Gold								
Target	Kgs.	-	448.0	426	435	380.5	355.2	-
Actual	Kgs.	-	409.7	454	471	375.9	288.4	-
% Target utilisation		-	91.5	106.6	85.3	98.8	81.2	-
% Variation over previous year		-	-0.97	19.16	-18.3	-0.9	-23.3	-
Cement (Including Charkhi Dadri)								
Target	Th.T.	963.3	1027	1252	1330	157.8	-	-
Actual	Th.T.	913.6	876	1119	1232	145.3	-	-
% Target utilisation		94.84	85.3	89.4	92.6	92.1	-	-
% Variation over previous year		44.19	-11.43	21.50	10.1	5.3	-	-

Contd....

TABLE NO. 3.1 CONTD.

Group	Unit	1982	1986	1988	1989	1991	1992	1995
Petroleum Crude (ONGC)								
Target	M.M.T.	8320	13.327	14.369	15.585	14.231	12.707	16.548
Actual	M.M.T.	8417	13.930	14.587	15.570	13.979	12.498	16.196
% Target utilisation		101.16	104.5	101.5	99.9	98.2	98.4	97.9
% Variation over previous year		40.84	7.43	4.40	6.7	-8.0	-10.6	17.7
Fertilizers (N_2)								
Target	Th.T.	882.2	1134.5	-	1595.3	1612.8	-	-
Actual	Th.T.	693.1	1021.3	-	1376.6	1364.4	-	-
% Target utilisation		78.56	90.0	-	86.3	84.6	-	-
% Variation over previous year		-5.35	4.72	-	10.4	-3.5	-	-
P_2O_5								
Target	Th.T.	166.2	239.9	-	112.3	117.8	-	-
Actual	Th.T.	145.6	216.9	-	91.2	125.0	-	-
% Target utilisation		87.60	90.4	-	81.2	106.1	-	-
% Variation over previous year		0.275	44.22	-	-26.9	7.5	-	-

SOURCE: Table prepared,in the present form, by the author with the help of data taken from various issues of the Public EnterprisesSurvey, Bureau of Public Enterprises, Ministry of Industry, Government of India, New Delhi.

percentage target utilisation came down to 83.00. For the remaining three years the percentage target utilisation was over 90 with slight variations here and there.

It is also clear from afore-mentioned table that the Saleable steel target for the year 1982 was fixed at 3052 thousand tonnes whereas actual production was 2553 thousand tonnes bringing the variation over previous year to -3.36 per cent. In 1986, variation over the previous year slightly decreased to -2.87 per cent. However, in 1988 the percentage variation over previous year was highly impressive, that is, 15.98 per cent. But again in 1989, the percentage variation over previous year came down to -7.4 per cent. For the remaining three years, variations over the previous years were positive though not uniform. In case of lignite, targets achieved were more than 90 per cent for the years 1986 and 1992. For the rest of the five years targets achieved were more than hundred per cent.

It may also to added here that performance with respect to physical production for the industry as a whole is quite different from the individual manufacturing units in any industry. It is true in

many cases that while many individual factories have faired quite well the industry as a whole has been incurring losses over the years. For example, production of ingots and saleable steel (IISCO), Blister Copper (Hindustan Copper Ltd.) Raw Material (NEC), Generation of Electricity (NTPC), Cryocontainers (IBP Company), Grease (IOBL). Penicillin (Hindustan Antibiotics Ltd.), Tablets (Karnataka Antibiotics, Maharashtra antibiotics and Indian Drugs and Pharmaceuticals Ltd.) Vials & Chemicals (IDPL), Hydro sets (Bharat Heavy Electricals Ltd.), Equipment & Structures (Heavy Engg. Corpn.), Micro Computer (Senil Conductor Complex), two-wheelers, three-wheelers & fans (Scooters India Ltd.) off shore (Mazagaon Dock Ltd.), Bailey (Garden Reach) and footwears (TAFCO) recorded improvement of over 20 per cent as compared to the corresponding period of last year. However, short fall in production of over 20 per cent was recorded in super alloys and special metal (MIDHANI), LPG valves (IPB Co.) Crude thruput (Hindustan Petroleum), Nitrogenous fertilizers (FACT & NFL), Tablets (Orissa Drugs and Southern Pesticides), Capsules (Maharashtra Antibiotics and Karnataka Antibiotics), Sera & Vaccine (BIL), Thermal Sets (BHEL), Wagons (Burn standard) and Castings (HEC)[1].

As for the production of gold, the target for 1986 was fixed at 448.0 kgs. whereas actual production was 409.7 kgs bringing the target utilisation to 91.5 per cent. In 1988, the actual production of 454 kgs. exceeded the target of 426 kgs bringing the percentage utilisation of target to 106.6. In 1989 percentage utilisation of target came down to 85.3 but again in 1991 it considerably improved to 98.8 per cent. However, in 1992, the percentage utilisation of target declined to 81.2. Figures for actual production as well as for targets for 1995 are not available.

Target for petroleum crude (ONGC) for the year 1982 was fixed 82320 million metric tonnes whereas actual production amounted to 8417 million metric tonnes, thus exceeding the target by 97 million metric tonnes. This trend of exceeding the targets continued upto the year 1988. For the remaining four years, the target utilisation has been in the vicinity of 95 per cent with slight variations.

FINANCIAL PERFORMANCE

While commenting on the performance of any business organisation financial aspect comes to the fore. Though a number of PSUs are not business concerns in the strict sense of the term but their

financial aspect cannot be ignored. In a mixed economy where private sector is also allowed to operate and compete with PSUs simultaneously this aspect occupies all the more importance Judging against this background, financial performance of a large number of PSUs has not only been not satisfactory but many of them have proved to be an utter failure. Table No. 3.2 sets out data of Indian Central PSUs regarding their financial performance.

First Five Year Plan Period (1951-1956) :

It is easy to measure the performance of private sector units in terms of net profit for loss because in their case, maximization of profit is one of the main objectives, if not the sole aim. This standard of comparison fails miserably in the case of Public Sector Undertakings as they are supposed to provide healthy infrastructural facilities necessary for the overall economic development of a country and maximisation of monetary profit occupies only a secondary position. These undertakings were frequently started in those areas where profitability was low and gestation period long.[2]

TABLE 3.2

(RUNNING UNDERTAKINGS EXCLUDING INSURANCE COMPANIES)

(Rs. in crores)

Year	No.of Units	Capital employed	Gross Profit Pre-tax	Net Profit Pre-tax	Net Profit after tax	Rate of Return	
						Gross Profit to capital employed %	Net Profit to capital employed %
Second Plan (1956-61)	26	239	13.2	10.8	8	5.52	3.35
Third Plan (1961-66)	38	1627	N.A.	N.A.	-47.18	N.A.	-2.90
Annual Plan (1966-69)	64	2806	N.A.	N.A.	-1027.9	N.A.	-36.63
Fourth Plan (1969-70)	73	3281	139	15	-3	4.2	-0.09
(1970-71)	87	3606	145	20	-3	4.0	-0.08
(1971-72)	93	4089	169	22	-19	4.1	-0.5
(1972-73)	101	4756	243	81	18	5.1	0.4
(1973-74)	114	5376	334	149	64	6.2	1.2
Fifth Plan (1974-75)	120	6627	559	312	184	8.4	2.8
(1975-76)	121	8824	668	306	129	7.6	1.5
(1976-77)	149	10887	1028	421	184	9.4	1.7
(1977-78)	155	12130	915	160	-92	7.5	-0.8
(1978-79)	159	13969	1071	185	-40	7.7	-0.3

TABLE NO. 3.2 CONTD.

(Rs. in crores)

Year	No.of Units	Capital employed	Gross Profit Ore-tax	Net Profit Pre-tax	Net Profit after-tax	Rate of Return	
						Gross Profit to capital employed %	Net Profit to capital employed %
Annual Plan (1979-80)	169	16182	1229	255	- 47	7.6	-0.3
Sixth Plan (1980-81)	168	18207	1418	19	-203	7.8	-1.1
(1981-82)	188	21935	2654	1025	446	12.1	2.0
(1982-83)	193	26590	3469	1547	618	13.1	2.3
(1983-84)	201	29856	3565	1480	240	11.9	0.8
(1984-85)	207	36382	4628	2099	909	12.7	2.5
Seventh Plan (1985-86)	211	42965	5287	2173	1172	12.3	2.8
(1986-87)	214	51835	6521	3101	1771	12.6	3.4
(1987-88)	220	55617	6940	3353	2030	12.5	3.6
(1988-89)	226	67629	8572	4404	2993	12.7	4.4
(1989-90)	233	84760	10622	5293	3789	12.5	4.5
Annual Plans (1990-91)	236	101702	11359	3820	2368	11.2	2.3
(1991-92)	237	117991	13675	4003	2355	11.6	2.0

TABLE NO. 3.2 CONTD.

(Rs.in crores)

Year	No.of Units	Capital employed	Gross Profit Pre-tax	Net Profit Pre-tax	Net Profit after-tax	Rate of Return	
						Gross Profit to capital employed %	Net Profit to capital employed %
Eighth Plan (1992-97)							
(1992-93)	239	140110	15957	5076	3271	11.4	2.3
(1993-94)	240	159307	14438	6544	4435	11.6	2.8
(194-95)	241	161311	22516	9800	7217	13.9	4.5
(1995-96)	239	173874	27986	147064	9878	16.1	5.7

Note : Gross Profit before tax = (Net profit+interest+corporate tax paid)
Total Capital employed = (Fixed assets-depreciation+working capital)

Rate of Return = $\left(\frac{\text{Net Profit after tax}}{\text{Capital employed}} \times 100 \right)$ % Rate of Return = $\left(\frac{\text{Gross Profit}}{\text{Capital employed}} \times 100 \right)$ %

N.A. = Not available

SOURCE: Table prepared,in the present form, by the author with the help of data taken from the Yojana, Ministry of Information and Broadcasting, New Delhi, February, 1997; Public Enterprises Survey, Vol. 1,Ministry of Industry, Government of India, New Delhi, 1994-95 and Economic Survey, Ministry of Finance, Government of India, New Delhi, 1992-93.

Second Five Year Plan Period (1956-1961) :

During this plan period, the net profit after tax of PSUs amounted to Rs. 8 crores and the rate of return or net profit to capital Employed was 3.35 per cent. The total number of PSUs set up during the Plan period amounted to twenty six while the amount of capital sunk in them was of the order of Rs. 239 crores. The pre-tax gross profit amounted to Rs. 13.2 crores and the ratio of gross profit to capital employed worked out to 5.52 per cent.

Third Five Year Plan Period (1961-1966) :

During this plan period, the losses of PSUs amounted to Rs. 47.19 crores and the rate of return on capital employed was 2.90 per cent. In all, thirty seven new PSUs were set up during this period bringing the total number of central PSUs to 84. The total amount of capital employed in these undertakings amounted to Rs. 1627.22 crores. The Plan period was unusual in the sense that the Indian economy was in the grip of recession and shortages. Secondly, Indo-Pak war of 1965 plagued the Indian economy for many years to come. The planning process itself had to be discontinued and consequently three Annual Plans had to be taken up. Figures for pre-tax gross and net

profits as well as the ratio of gross profit to capital employed or net profit to capital employed with respect to the PSUs for this period are not available. For the first time after the initiation of planning in the country, the PSUs suffered losses.

Annual Plans (1966-1969) :

During the three-year period of Annual Plans, the losses of the PSUs, amounted to Rs. 1027.9 crores and the rate of return was -36.63 per cent on capital employed. The PSUs continued to incur huge losses during the three annual plan period.

Fourth Five Year Plan Period (1969-1974) :

During this plan, the PSUs showed continuous losses during the first three years of the plan. The net rate of return on capital employed was also negative. However, last two years of the plan were good in the sense that the PSUs showed net profits as well as positive rates of net return on the capital employed.

Fifth Five Year Plan Period (1974-1979) :

During the first three years of the Fifth Plan, the PSUs earned profits. They showed profits of

Rs. 184 crores, 129 crores and 184 crores during the years 1974-75, 1975-76 and 1976-77 respectively, while during the last two years, that is, 1977-78 and 1978-79 losses of the order of Rs. 92 crores and Rs.40 crores were suffered. The rates of return on capital employed of these undertakings were 2.8 per cent, 1.5 per cent, 1.7 per cent -0.8 per cent and -0.3 per cent respectively over the same period. During the Annual Plan period of 1979-80, the PSUs made losses to the tune of Rs. 47 crores and the rate of return on capital employed was -0.3 per cent.

Sixth Five Year Plan Period (1980-1985) :

During the first four years of this plan period, the PSUs showed profits of Rs. 446 crores, Rs. 618 crores, Rs. 240 crores and Rs. 909 crores in 1981-82, 1982-83, 1983-84 and 1984-85 respectively. However, during the concluding year of the Plan these undertakings incurred losses of Rs. 203 crores. The rate of return on capital employed of these undertakings came to -1.1, 2.0, 2.3, 0.8 and 2.5 per cent respectively over the plan period.

Seventh Five Year Plan Period (1985-90) :

During this plan period, the PSUs showed

profits of 1,172 crores, Rs. 1,771 crores, Rs. 2,030 crores, Rs. 2,993 crores and Rs. 3,789 crores in 1985-86, 1986-87, 1987-88, 1988-89 and 1989-90 respectively. The rates of return of these PSUs worked out to 2.8, 3.4, 3.6, 4.4 and 4.5 per cent respectively over the same period. It is to be noted here that the rates of returns on capital employed showed considerable improvement in comparison to the previous plans.

during 1990-91, the PSU again showed profit Rs. 2,368 crores with a rate of return of 2.3 per cent on capital employed. The results of the Annual Plan of 1991-92 were also encouraging and the working PSUs showed a profit of Rs. 2,355 crores was Rs. 13 crores less in comparison to the previous Annual Plan. The rate of return on capital employed was also little less than that witnessed in 1990-91. However, during 1991-92, nine PSUs showed improvement in their financial performance over 1990-91.

Eighth Five Year Plan Period (1992-1997) :

During the first three years of the Eighth Plan, that is, for 1992-93, 1993-94, 1994-95 and 1995-96 the PSUs earned profits, of Rs. 3,271 crores, Rs. 4,435 crores, Rs.7,217 crores & Rs.9,878 crores respectively with annual

rates of return of 2.3,2.8,4.5 and 5.7 per cent over the same period.

The afore-mentioned review of the financial performance of the central PSUs brings to light many important issues. Firstly, the overall performance of these PSUs has not only been not satisfactory but, in same cases, very much disturbing. In a mixed economy wherein Private Sector undertakings are also allowed to operate and compete with the PSUs their (PSUs') performance cannot be evaluate in isolation. A large number of them made continuous losses over the plan period some them of undoubtedly made profits of a high order but, for the most part, their profits have been the monopoly profits as no private sector undertakings were allowed to compete in their field.

Another factor for their profits is the inter-Departmental transfers in addition to the export income from a number of developing countries to which these PSUs supply goods at much higher rates than the domestic prices. Except for these factors applicable only to many PSUs, the performance of other PSUs, in general, has been very dismal. To add fuel to the fire, Indian PSUs did not confine themselves strictly to the areas specified for them in the IPR of 1956. They entered the field of consumer goods and services

and took over a large number of sick units which increased their losses. The government of India on July 24, 1991 made a clear-cut statement about the PSUs but the speed of liberalisation is very slow.

Table No. 3.3 deals with profit earned/losses incurred by all manufacturing and service groups of PSUs from 1978-79 to 1995-96. The table gives the break up of PSUs into profit earning and loss incurring units as also the number of units neither making profit nor incurring losses. As will be seen from the table the ratio of losses of loss-incurring PSUs to the profits of profit making PSUs worked out at 73.0 in 1978-79 which declined to 70.4 in 1979-80. This situation was worst during the first year of the sixth Five Year Plan as the ratio of losses of loss-making PSUs to profits of profit-making PSUs increase to 137.4. During the next two successive years of the plan the situation improved. However during 1983-84 this situation again worsened and the afore-mentioned ratio became as high as 86.5. During Seventh Five Year Plan Period, the PSUs faired well as the ratio of losses of loss-incurring PSUs to the profits of profit-making PSUs came down from 58.0 to 34.1.

The afore-mentioned trend was quite healthy and should have been sustained. But unfortunately, a

TABLE NO. 3.3

(PERFORMANCE OF MANUFACTURING & SERVICE GROUP OF PSUs)

(Rs. in crores)

Year	Profit making PSUs(2)	Loss incurring PSUs (2)	No.of PSU neither making Profit nor incurring loss	Total	2 as % of 1
1978-79	686 (88)	- 501 (69)	(2)	159	73.4
1979-80	761 (105)	- 536 (66)	(0)	171	70.4
1980-81	557 (94)	- 760 (74)	(0)	-203 (168)	136.4
1981-82	1293 (104)	- 847 (83)	(1)	446 (188)	65.5
1982-83	1596 (109)	- 983 (82)	(2)	613 (193)	61.6
1983-84	1778 (108)	-1538 (92)	(1)	240 (201)	86.5
1984-85	2021 (113)	-1112 (92)	(2)	909 (207)	55.0
1985-86	2856 (119)	-1657 (90)	(2)	1199 (211)	58.0
1986-87	3478 (108)	-1707 (100)	(6)	1771 (214)	49.0
1987-88	3776 (114)	-1745 (103)	(3)	2031 (220)	46.2
1988-89	4917 (117)	-1923 (106)	(3)	2994 (226)	39.1
1989-90	5751 (131)	-1962 (98)	(0)	3789 (229)	34.1
1990-91	5393 (123)	-3121 (111)	(0)	2272 (234)	57.9
1991-92	6079 (133)	-3723 (102)	(2)	2356 (237)	61.2
1992-93	7384 (131)	-4113 (106)		3271 (237)	55.7
1993-94	9722 (120)	-5287 (117)		4435 (237)	54.4
1994-95	12070 (130)	-4883 (109)		7187 (239)	40.0
1995-96	14704 (134)	-4826 (101)		9878 (240)	32.8

NOTE: Figures in brackets represent the no.of Public Sector Undertakings.

SOURCE: Table prepared, in the present form, by the author with the help of data taken from various of the Public Enterprises Survey Vol. 1, Bureau of Public Enterprises, Ministry of Industry, Govt.of India,New Delhi and Competition Success Review, Annual No. 1988.

serious reversal of trend occurred during 1991-92 and this ratio again jumped to 61 per cent. With marginal improvement in 1992-93, this ratio has again jumped to 54.4 per cent in 1993-94. This is rather disappointing that nearly half of the total number of enterprises continue to incurred losses year after year. The need of the hour is to make a case-by-case study of these enterprises so as to determine the factors responsible for the persisting situation so that remedial action can be initiated.

Although the Economic Survey of the Government of India has been presenting a rosy picture about the performance of public sector enterprises, still two observations need to be made. Firstly, a very narrow range of profit-making enterprises account for bulk of the total net profit. During 1993-94, about 67 per cent of the total net profit of profit-making enterprises (Rs. 9,722 crores) was contributed by Petroleum Rs. 3,948 crores (40.6%), Power Rs. 1,013 crores (10.4%), Financial Services. Rs. 546 crores (5.6%), Telecommunications, Rs. 520 crores (5.3%) and coal Rs. 511 crores (5.3%). Among the principal loss incurring enterprises were textiles, consumer goods, engineering goods, fertilizers, contract and consultancy services.

Secondly, the Government is achieving a higher profitability ratio by increasing the administered prices of goods produced in the public sector, rather than reducing costs, improving efficiency and capacity utilisation. The manipulation of administered prices to cover the inefficiencies of public enterprises is an unhealthy trend, more so on account of its other social impications, both in terms of imposing burdens on the people and providing the bureaucrats an easy escape route. The picture becomes very dismal if profits after tax are computed as percentage of total capital employed.

During the four years (1977-78, 1980-81), the cumulative net loss works out to Rs. 388 crores. The situation has been particularly bad in 1980-81 when net loss was of the order of Rs. 203 crores. During 1981-82, the public enterprises have turned the corner and even after paying income tax of Rs. 579 crores, earned post-tax profit of the order of Rs. 446 crores. But the situation again deteriorated in 1983-84 and net profit after tax was only Rs. 240 crores i.e. 0.8 per cent of total capital employed. There was a slight improvement in 1985-86, since profit after tax rose to 2.8 per cent. It further improved to 3.6 per cent of capital employed in 1987-88 and 4.5 per cent in

1989-90. The situation worsened again and profit after tax slumped to a low figure of 2.3 per cent in 1992-93 and has marginally recovered to 2.8 per cent in 1993-94.[3]

Table No. 3.4 gives sector-wise break-up of the Indian PSUs alongwith profits earned/losses sustained by each sector from 1985-86 to 1995-96. It will be seen from the table that the four sectors, comprising petroleum, power, agro-based and medium and light Engineering companies taken together made a profit of Rs. 594.4 crores in 1985-86 while the remaining 143 undertakings in nine sectors for which data are available, such as Service Enterprises, Coal, Steel, Chemicals and Fertilizers, Minerals and Metals, Textiles, Consumers Goods, Transportation Equipment and Heavy Engineering sustained losses of Rs. 608.95 crores resulting in an overall net losses of Rs. 14.55 crores during the same year. It terms of percentage 22 per cent of the undertakings earned profit whereas 78 per cent undertakings suffered losses.

Likewise, in 1986-87, 68 out of 170 undertakings in four sectors comprising petroleum, power, service enterprises and Agro based Industries earned profit of Rs. 963.3 crores while the remaining 102 undertakings in nine sectors, viz., coal steel,

TABLE NO. 3.4

SECTOR-WISE ANALYSIS OF FINANCIAL PERFORMANCE (HALF YEARLY)

Net Profit/Loss (Rs. in crores)

Name of the Sector	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
Petroleum	535.95 (10)	799.57 (11)	992.09 (12)	1036.53 (12)	1312.61 (12)	1464.45 (12)	1118.60 (11)	694.40 (10)	1335.40 (11)	2129.87 (9)	2439.65 (9)
Power	52.24 (3)	88.43 (2)	95.44 (3)	140.15 (3)	191.72 (3)	229.43 (3)	353.36 (4)	378.42 (3)	443.54 (3)	550.31 (3)	649.10 (3)
Service Enterprises	-23.28 (48)	74.55 (46)	40.92 (52)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Agro-based Industries	1.43 (9)	0.75 (9)	0.80 (4)	0.08 (4)	-0.82 (3)	-0.75 (2)	2.10 (3)	3.06 (1)	9.78 (3)	0.15 (1)	0.90 (1)
Coal	-231.55 (5)	-225.02 (7)	-359.55 (7)	-321.77 (7)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Steel	-53.95 (5)	-179.75 (6)	-308.70 (6)	-30.54 (5)	2.61 (6)	-231.61 (6)	14.98 (7)	35.79 (6)	-11.32 (8)	96.32 (7)	213.91 (7)
Chemicals & Fertilizers	-64.60 (23)	-123.15 (20)	-175.53 (24)	-115.16 (23)	-220.15 (25)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Minerals & Metals	-62.60 (13)	-71.99 (13)	-32.66 (13)	1.82 (14)	82.36 (12)	19.18 (10)	132.71 (12)	106.43 (12)	-45.08 (11)	56.34 (10)	146.77 (10)
Textiles	-40.36 (10)	-69.22 (9)	-76.73 (10)	-77.53 (9)	-82.17 (10)	-66.20 (12)	-120.72 (13)	-116.29 (8)	-193.11 (11)	-132.97 (6)	-101.63 (6)
Consumer Goods	-79.81 (14)	-29.24 (11)	-66.40 (13)	-97.70 (12)	-94.74 (12)	-86.57 (14)	-127.34 (15)	-82.87 (13)	-185.75 (10)	-44.58 (6)	-23.71 (6)
Transport Equipment	-20.80 (12)	-23.38 (10)	-44.10 (12)	-50.80 (12)	-11.92 (11)	-54.21 (12)	-63.25 (11)	-114.95 (8)	-93.16 (11)	97.31 (8)	-21.78 (8)
Heavy Engineering	-32.00 (13)	-7.99 (11)	-7.64 (9)	-3.70 (9)	-19.09 (11)	-68.75 (9)	-97.12 (12)	-84.02 (11)	-48.08 (7)	-95.51 (6)	-94.04 (6)
Medium & Light Engg.	4.78 (18)	-0.60 (15)	-1.15 (14)	-15.03 (17)	-102.49 (16)	-94.75 (17)	-126.27 (17)	-95.02 (16)	-123.72 (13)	-37.16 (9)	-68.80 (9)
Trading & Marketing	N.A.	N.A.	13.75 (18)	46.61 (15)	45.63 (13)	180.30 (13)	62.08 (13)	43.39 (8)	66.79 (11)	88.77 (9)	58.09 (9)

CONTD.....

TABLE NO. 3.4 CONTD.

(Rs. in crores)

Name of the Sector	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1944-95	1995-96
Transportation Services	N.A.	N.A.	70.52 (6)	6.68 (8)	13.90 (6)	-47.85 (7)	-55.99 (7)	209.83 (6)	-271.08 (4)	-96.59 (3)	-246.13 (3)
Development of Small Industries	N.A.	N.A.	0.30 (1)	0.56 (1)	0.56 (1)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Financial Services	N.A.	N.A.	16.86 (3)	33.59 (3)	62.86 (4)	96.84 (6)	55.77 (3)	0.55 (1)	102.25 (4)	80.71 (3)	202.84 (3)
Telecommunication Services	N.A.	N.A.	106.96 (2)	190.98 (2)	176.37 (2)	120.52 (2)	144.84 (2)	151.68 (2)	182.26 (2)	173.54 (2)	489.07 (2)
Contract & Consultruction	N.A.	N.A.	-17.82 (7)	-37.34 (7)	-51.70 (7)	-69.84 (8)	-72.21 (8)	-59.36 (7)	-69.78 (6)	-102.68 (5)	-109.03 (5)
Tourist Services	N.A.	N.A.	-2.90 (2)	-2.56 (2)	-2.81 (2)	-5.09 (2)	-11.61 (3)	-11.59 (2)	-9.32 (2)	4.45 (2)	18.19 (2)
Section 25 Companies	N.A.	N.A.	-1.14 (3)	-0.86 (3)	-1.24 (3)	-0.52 (3)	2.27 (3)	3.04 (3)	1.40 (3)	0.79 (1)	2.80 (1)
Industrial Development and Technical Consultancy Services	N.A.	N.A.	-4.57 (10)	-9.82 (11)	-10.83 (11)	-23.90 (12)	-20.45 (11)	-26.04 (8)	-19.32 (7)	-16.23 (6)	-3.46 (6)
Coal & Lignite	N.A.	N.A.	N.A.	-265.7 (8)	-187.41 (8)	-384.30 (8)	-610.75 (8)	-346.86 (8)	-188.65 (8)	-302.29 (9)	-461.55 (9)
Fertilizers	N.A.	N.A.	N.A.	N.A.	N.A.	-272.08 (8)	-210.89 (8)	-199.36 (6)	-443.76 (8)	-138.13 (7)	-102.39 (7)
Chemicals & Pharmaceuticals	N.A.	N.A.	N.A.	N.A.	N.A.	-123.02 (16)	-13.83 (14)	-20.44 (13)	-11.47 (12)	-4.26 (3)	-0.96 (3)
Grand Total	-14.55 (183)	232.96 (170)	59.79 (179)	694.19 (179)	1103.25 (178)	481.28 (181)	356.28 (183)	469.79 (150)	427.82 (158)	2408.16 (115)	2987.84 (115)

Note : Figures in brackets represent the number of Public Sector undertakings.

N.A. = Not Available

Source : Various Issues of Public Enterprises Survey, Vol. 1, Bureau of Public Enterprises, Ministry of Industry Government of India, New Delhi.

chemicals & fertilizers, minerals and Metals, Textiles, Consumer Goods, Transportation Equipments, Heavy Engineering and Medium & Light Engineering incurred losses of Rs. 730.34 crores resulting in an overall net profit of Rs. 232.96 crores. In terms of percentage of undertakings earning profits, as compared to the previous year, the situation improved a lot as 40 per cent of the undertakings earned profit while 60 per cent suffered losses.

Another fact which emerges from the table is that, except for 1985-86, all the PSUs, taken together, have earned profits right from 1986-87 to 1995-96 though the amounts of profits have varied from year to year. The highest profit was earned in the year 1995-96 which amounted to Rs. 2987.84 crores. Further, of around more than 150 reporting PSUs, the main profit-making PSUs have been in the sectors of petroleum, power, financial Services, Telecommunication Services and Trading and Marketing, while majority of the PSUs have continuously suffered losses. It may also be pointed out here that the PSUs which have constantly earned profits have mostly been monopolies of the Government. The Government has intermittently been raising the administered prices and most of their sales have been inter-government departmental transfers. It means that whatever profits

they have earned is more due to the government's raising the administered prices rather than due to their efficiency.

Overall Performance :

Analysis of financial performance, profitability and return on investment of public enterprises can be made in several ways. What has been attempted in this section is an evaluation of profitability of these enterprises by application of the concepts of gross margin, gross profit, profit before tax as also post-tax position of profits/losses, dividend paid by enterprises on share capital, generation of internal resources, contribution to the exchequer, export earnings and vlaue-added etc.[4]

During the year 1994-95 the top ten profit making PSUs whose pre-tax profits represented 62.28 per cent of the total pre-tax profits of Rs. 14705.39 crores earned by 132 enterprises are given in Table No. 3.5 below.

TABLE NO. 3.5

TOP TEN PROFIT MAKING PSUs 1994-95

S.No.	Name of the enterprise	Pre-Tax Profit	%age share
1.	Oil and Gas Corporation Ltd.	1931.07	13.13
2.	Indian Oil Corporation Ltd.	1369.84	9.32
3.	Steel Authority of India Ltd.	1163.33	7.91
4.	National Thermal Power Corporation Ltd.	1124.67	7.65
5.	Mahanagar Telephone Nigam Ltd.	1044.07	7.10
6.	Indian Petro Chemical Corporation Ltd.	604.44	4.11
7.	Hindustan Petroleum Corporation Ltd.	575.17	3.91
8.	Videsh Sanchar Nigam Ltd.	520.89	3.54
9.	Bharat Petroleum Corporation Ltd.	457.85	3.11
10.	Gas Authority of India Ltd.	367.68	2.50
	Total	9159.01	62.28
Total Pre-Tax Profits of Profit-Making Enterprises		14705.39	100.00

Source : Public Enterprises Survey, Bureau of Public Enterprises, Government of India, Ministry of Industry, New Delhi, 1995-96, page 24.

Oil and Natural Gas Corporation Ltd. and Indian Oil Corporation Ltd. have occupied the first and second position respectively. During the year 1994-95 National Thermal Power Corporation and Mahanagar Telephone Nigam Ltd. have declined from 2 to 4 and 4 to 5 respectively. Steel Authority of India Ltd. has improved its position from 5 to 3. Other PSUs which earned profit include National Aluminium Company Ltd., Oil India Ltd., Shipping Corporation of India Ltd. and Neyveli Lignite Corporation Ltd.

The top ten-loss making Public Sector Undertakings which accounted for roughly 50 per cent of the total loss of Rs. 4906.81 crores incurred by 109 PSUs during 1994-95 are given in Table No. 3.6 below.

TABLE NO. 3.6

TOP TEN LOSS MAKING ENTERPRISES

S.No.	Name of the Enterprises	Nett Loss	%age share
1.	Hindustan Fertilizers Corporation Ltd.	395.79	8.07
2.	Fertilizer Corporation of India Ltd.	378.70	7.72
3.	Rashtriya Ispat Nigam Ltd.	364.23	7.42
4.	Delhi Transport Corporation	307.04	6.26

5.	Heavy Engineering Corporation Ltd.	270.49	5.51
6.	Indian Airlines Ltd.	188.73	3.85
7.	Bharat Cooking Coal Ltd.	154.63	3.15
8.	Cement Corporation of India Ltd.	149.96	3.06
9.	Nuclear Power Corporation of India Ltd.	120.82	2.46
10.	Central Coalfields Ltd.	118.96	2.42
	Total	2449.40	49.92
	Total loss by loss making enterprises	4906.81	100.00

Source : Public Enterprises Survey, 1995-96, op.cit. pp. 24-25.

It will be seen from the above table that Hindustan Fertilizers Corporation Ltd. has occupied the first position by incurring a net loss of Rs. 395.79 crores. Heavy Engineering Corporation Ltd. Bharat Cooking Coal Ltd. and Central Coalfields Ltd. have worsened their performance as compared to the previous year. Other PSUs which suffered losses during the year under review include Nagaland Pulp and Paper Company Ltd., Eastern Coalfields Ltd., Indian Telephone Industries Ltd. and Mandya National Paper Mills Ltd.

The Public Enterprises are expected to give adequate return on investments made in them. Profits, as measure of performance evaluation of public sector enterprises, can be viewed from different angles. The concept of gross margin, which does not take into account the element of depreciation (usage cost of assets), is generally advocated by economists to measure the return of investments to national economy. The accountants, on the other hand, lay greater emphasis on the gross profit concept which takes note of depreciation but overlooks the charge on account of interest. The tax collector looks at the profit from his own view point as a source of revenue and, hence, is more concerned with pre-tax profit. The investors are, however, more concerned with the post-tax profits that are available to compensate them against the capital provided by them.

Table No. 3.7 sets out a comparative analysis of the collective performance of the Manufacturing & Service group of enterprises separately for a period of twelve years from 1984-85 to 1995-96, measured in terms of financial parameters. In absolute terms, the gross profits of public enterprises have increased from Rs. 6427.81 crores in 1984-85 to Rs. 27988.51 crores in 1995-96 recording an increase

TABLE NO. 3.7 PERFORMANCE OF MANUFACTURING AND SERVICE GROUP OF ENTERPRISES

(Rs. in crores)

S.No.	Name of Particulars	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
1.	No.of Operating Enterprises	207	211	214	220	222	233	236	237	237	240	241	239
2.	Capital Employed	36381.60	42964.56	51834.62	55617.22	67535.44	84759.95	102083.46	117991.08	139933.31	159836.44	162450.57	173874.16
3.	Gross Turn-over/Sales	54783.88	62360.00	69088.40	81268.25	93122.13	106068.84	118675.92	133906.26	146713.38	158049.29	187355.08	226777.18
4.	Percentage of Gross Sales to Capital Employed	150.58	145.14	133.29	146.12	137.89	125.14	116.25	113.49	104.85	98.88	115.33	130.43
5.	value of Goods Produced/ Service rendered	52314.12	58966.10	65030.06	73791.89	86850.09	99489.59	11154.58	124200.28	138525.00	149028.58	171889.87	208702.51
6.	Cost of Production/ Services	51621.61	58020.82	63362.52	72216.71	84368.36	96731.56	112227.13	124992.84	133739.49	147596.43	168113.00	203584.39
7.	Gain/Loss from Operation (5-6)	692.51	945.28	1503.20	1575.18	2481.73	2758.03	672.55	792.56	214.49	1432.15	3776.87	5118.12
8.	Other income	1406.10	1227.38	1433.13	1778.26	1894.72	2534.64	4174.00	4795.14	5414.55	5222.66	5991.29	8946.61
9.	Profit/Loss before tax(7+8)	2098.61	2172.66	3100.67	3353.44	4376.45	5292.67	3501.45	4002.58	5200.06	6654.81	9768.16	14064.73
10.	Tax Provision	1189.71	1000.22	1329.28	1322.98	1395.49	1503.80	1229.30	1647.11	1804.37	2109.93	2581.46	4186.66
11.	Net Profit/Loss (9-10)	908.90	1172.44	1771.39	2030.46	2980.96	3788.87	2272.15	2355.47	3395.69	4544.88	7186.70	9878.07
(a)	Profit of Profit Making Enterprises (No.of Enterprises)	3209.34 (114)	3856.80 (119)	4805.19 (109)	3775.45 (114)	4887.47 (118)	5750.49 (131)	5393.90 (123)	6078.72 (133)	7346.22 (131)	9768.02 (121)	12070.24 (130)	14704.28 (134)
(b)	Loss of Loss Making Enterprises (No. of Enterprises	1110.73 (92)	1684.14 (90)	1704.52 (99)	1744.99 (103)	1906.51 (101)	1961.62 (98)	3121.75 (111)	3723.25 (102)	3950.53 (104)	5223.14 (116)	4883.54 (109)	4826.21 (101)
(c)	No.of Enterprises neither Making Profit nor Loss	(1)	(2)	(6)	(3)	(3)	(4)	(2)	(2)	(2)	(3)	(2)	(4)
12.	Percentage of net Profit/ Loss to Capital Employed	2.49	2.72	3.41	3.65	4.41	4.47	2.23	2.00	2.43	2.84	4.4	5.7
13.	Interest Charged	2529.20	3114.62	3420.46	3586.97	4168.90	5329.02	7600.10	9672.60	10778.41	11900.66	12861.54	13923.78
14.	Gross Profit/Loss (9+13)	4627.81	5287.28	6521.13	6940.41	8545.35	10621.69	11101.55	13675.18	15978.47	18555.47	22629.70	27988.51
15.	Percentage of Gross Profit to Capital Employed	12.72	12.31	12.58	12.48	12.65	12.53	10.87	11.59	11.49	11.61	13.93	16.10
16.	Dividend	176.44	191.26	296.52	320.09	352.92	322.55	412.92	687.22	791.52	1027.67	1438.07	2205.09
17.	Retained Profit (11-16)	732.46	981.18	1474.87	1710.37	2628.04	3466.32	1859.23	1668.25	2604.17	3517.21	5750.63	7672.93
18.	Value added	12505.36	13117.15	15979.34	19889.04	24944.54	28207.70	31921.50	35212.90	38114.58	41485.51	47986.13	57773.91
19.	Export Earnings	5831.45	3822.32	3938.89	4176.48	4898.07	6364.84	7085.82	8979.78	10345.07	11872.45	13330.09	15211.09
20.	No.of Employes including casual employes (in lacs)	21.74	22.06	22.89	22.87	22.84	23.15	23.02	22.73	22.04	21.48	21.25	20.91
21.	No.of casual Employes (in lacs)	0.74	0.60	0.83	0.81	0.85	0.81	0.86	1.00	0.72	0.82	0.67	0.44
22.	Average Annual Per Capita Emoluments (in rupees)	24330.00	25906.00	28823.00	32537.00	39513.00	43536.00	49201.00	54130.00	58741.00	69427.00	74841.00	95285.00

SOURCE: Table prepared, in the present form, by the author with the help of data taken from various issues of the Public Enterprises Survey, Vol. 1, Bureau of Public Enterprises, Ministry of Industry, Government of India, New Delhi.

of 505 per cent over the period under review. This is after taking into account the increase in input costs and specially, salaries and wages which always tend to show an increase. The profit before tax has registered an increase of Rs. 11966.12 crores in 1995-96 over 1984-85 which shows an increase of 570 per cent over the period. After taking into account the tax provision of Rs. 4186.66 crores, the net profit for the year 1995-96 works out to Rs. 9878.07 crores as against Rs. 908.90 crores for the year 1984-85 showing an increase of Rs. 8969.17 crores or 987 per cent over the same period.

After providing for depreciation, amortisation and deferred revenue expenditure written off, the gross profit of the Central PSUs as a whole also recorded impressive upward movement from Rs. 4627.81 crores in 1984-85 to Rs. 27988.51 crores in 1995-96 showing an increase of 504.79 per cent. The gross profit, when viewed as percentage of capital employed, has also increased from 12.72 in 1984-85 to 16.10 in 1995-96. In terms of overall net profit after tax, from a net profit of Rs. 908.90 crores in 1984-85 the public enterprises have recorded as overall net profit of Rs. 9878.07 crores in 1995-96. In terms of net return on investment, that is, the ratio of net profit

to capital employed, there is an increase from 2.49 per cent in 1984-85 to 5.7 in 1995-96. Further, this marginal improvement in profitability has to be viewed against the background of multidimensional objectives of public enterprises and the divergent constraints faced by them.

In order to be fair and objective it would be necessary to take into account the obligations of public enterprises which transcends the concepts of production and profits. Given that, the performance of public enterprises either at micro or at macro level, has to be evaluated keeping in view the contributions made by them in discharging their socio-economic obligations, development of backward regions, provision of public utility services, selling basic inputs or products at administered prices etc. There is no denying the fact that all this has been possible despite several handicaps from which public enterprises suffer such as locational disadvantages in some cases, very high initial capital investments in others, having to do with technology which was not necessarily among the best available, cost of learning and development and presence of a large number of units taken over from the private sector etc.

The table further bifurcates the enterprises into profit-earning and loss-making ones. As per details given in the table, during 1995-96, the number of profit-earning enterprise came to 134 while their number was only 114 in 1984-85. Likewise, profits earned by them increased from Rs. 3209.34 crores in 1984-85 to Rs. 14704.28 crores in 1995-96, an increase of 358.17 per cent over the period under review. On the other hand, the losses of loss-making enterprises increased, from 92 in 1984-85 to 101 in 1995-96 while the losses suffered by them increased from Rs. 1110.73 in 1984-85 to Rs. 4836.21 in 1995-96 showing on increase of 334.50 per cent.

Table No. 3.8 presents data in respect of manufacturing PSUs from 1984-85 to 1995-96. In fact, manufacturing PSUs include those undertakings which engage themselves.in manufacturing steel, Minerals and Metals, Coal and Lignite, Power, Petroleum, Fertilizers, Chemicals and Pharmaceuticals, Heavy Engineering, Medium and Light Engineering, Transportation Equipment, Consumer Goods, Agro based industries and Textiles. In the manufacturing sector except for Petroleum, power, minerals and metals, coal and lignite and only a few other manufacturing units, others have been resulting in constant financial losses to the Government. For

TABLE NO. 3.8

PERFORMANCE OF MANUFACTURING ENTERPRISES

(Rs. in crores)

S.No.	DETAILS	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
1.	No.of Operating Enterprises	150	153	154	155	157	160	165	165	165	166	166	166
2.	Capital Employed	24309.91	30238.14	35897.70	38669.38	47579.39	58908.79	69632.92	79422.81	92061.27	103509.20	100358.37	111166.75
3.	Gross Turn-Over/Sales	39631.19	44532.19	49701.50	59312.64	71663.25	82516.24	91815.85	100024.81	113694.62	122233.01	143472.83	174307.31
4.	Percentage of Gross Sales to Capital employed	163.02	147.27	138.45	153.38	150.62	140.08	131.86	125.95	123.50	118.09	142.96	156.80
5.	Value of goods Produced/ Services rendered	36453.88	41253.57	45619.79	53595.32	65724.89	74509.10	80976.78	91353.44	104083.72	109970.82	125874.48	159626.54
6.	Cost of Production/ Services	35469.83	40164.49	44034.42	52076.87	63514.68	71915.37	83617.55	92519.30	104925.93	109551.31	123607.98	156935.09
7.	Gain/Loss from operation (5-6)	984.05	1089.08	1585.37	1518.45	2210.21	2557.73	-580.87	-1165.86	-842.21	419.51	2266.50	2691.45
8.	Other Income	912.74	892.96	1089.21	1237.97	1406.91	1858.19	3384.19	3907.97	4279.06	4172.11	4818.71	7729.00
9.	Profit/Loss before tax(7+8)	1896.79	1982.04	2674.58	2756.42	3617.12	4415.92	2803.32	2742.11	3436.85	4591.62	7085.21	10419.45
10.	Tax Provision	1050.18	884.47	1116.68	1006.14	1028.20	1026.64	835.67	987.42	1152.28	1221.77	1481.80	2745.81
11.	Net Profit/Loss(9-10)	846.61	1097.57	1557.90	1750.28	2588.92	3389.28	1967.65	1754.69	2284.57	3369.85	5603.41	7673.64
(a)	Profit of Profit Making Enterprises (No. of Enterprises)	2785.71 (73)	3382.00 (77)	4076.79 (70)	3251.51 (73)	4167.37 (76)	4894.45 (84)	4410.74 (81)	4819.65 (86)	5444.20 (82)	7646.82 (76)	9638.70 (81)	11662.62 (84)
(b)	Loss of Loss Making Enterprises (No. of Enterprises)	888.92 (76)	1399.96 (75)	1402.21 (80)	1501.23 (81)	1578.45 (79)	-1505.17 (73)	2443.09 (82)	3064.96 (77)	3159.63 (81)	4276.97 (88)	4035.29 (83)	3988.98 (79)
(c)	No.of Enterprises neither Making Profit nor Loss	(1)	(1)	(4)	(1)	(2)	(3)	(2)	(2)	(2)	(2)	(2)	(2)
12.	Percentage of net Profit/ Loss to Capital Employed	-	-	-	4.53	5.44	5.75	2.83	2.21	2.48	3.26	5.6	6.9
13.	Interest Charged	1412.15	1791.58	2008.01	2305.27	2912.64	3600.12	5122.99	6497.16	7188.28	7642.16	7744.24	8638.48
14.	Gross Profit/Loss (9+13)	3308.94	3773.62	4682.59	5061.69	6529.76	8016.04	7926.31	9239.27	10625.13	12233.78	14829.45	19057.93
15.	Percentage of Gross Profit to capital Employed	13.61	12.48	13.04	13.09	13.72	13.61	11.38	11.63	11.54	11.82	14.78	17.14
16.	Dividend	158.48	172.25	183.96	201.07	233.57	275.06	279.77	531.27	600.54	770.45	1147.30	1783.88
17.	Retained Profit (11-16)	688.13	925.32	1373.94	1549.21	2355.35	3114.22	1687.88	1223.42	1684.03	2599.40	4456.11	5889.76
18.	Value Added	12505.36	13117.15	15979.34	19889.04	24944.54	28207.70	31921.50	35212.90	38114.58	41485.51	47986.13	57773.91
19.	Export Earning	3129.73	1268.60	998.98	1209.36	1458.17	2003.87	2446.46	3403.50	4488.71	5044.89	5079.67	5531.95
20.	No. of Employees including Casual Employees (in lacs)	18.92	19.18	19.34	19.36	19.19	19.46	19.43	19.18	18.50	18.05	17.82	17.52
21.	No. of Casual Employees (in lacs)	0.63	0.49	0.54	0.56	0.58	0.54	0.56	0.78	0.55	0.75	0.60	0.36
22.	Average Annual Per Capita Emoluments (in Rs.)	23513.00	24819.00	28186.00	31592.00	37961.00	42427.00	47595.00	52355.00	59505.00	66234.00	71118.00	91039.00

SOURCE: Table prepared, in the present form, by the author with the help of data taken from various issues of the Public Enterprises Survey, Vol. 1, Bureau of Public Enterprises, Ministry of Industry, Government of India, New Delhi.

example, PSUs engaged in the manufacture of steel, Heavy Engineering, Transportation Equipment, Textiles, Consumer Goods and Agro-Products, have largely brought losses to the Government. It may be seen from the table that except for 1990-91, 1992-92 nd 1992-93, these PSUs made gains from their operations over the previous years. Profits of profit-making enterprises increased from Rs. 2785.71 crores in 1984-85 to Rs. 11662.62 crores in 1995-96 with growth rate of 318.66 per cent over the year 1984-85. Besides, losses of the loss-making manufacturing units also increased from Rs. 888.92 crores in 1984-85 to Rs. 3988.98 crores in 1995-96. In percentage terms, the losses increased by 348.74 over the period under review.

Table No. 3.9 presents data in respect of servicing PSUs from 1984-85 to 1995-96. In fact, servicing sector includes those PSUs which engage themselves in rendering services such as Trading and Marketing Services, transportation services, contract and construction services, industrial development and Technical consultancy services, Tourist Services, Financial Services, Telecommunication Services and Section 25 Companies. It may be seen from the table that, except for 1984-85 and 1990-91, service group of enterprises earned gains from their operations. It is

TABLE NO.3.9 PERFORMANCE OF SERVICE GROUP ENTERPRISES

(Rs. in Crores)

S.No.	DETAILS	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96
1.	No.of Operating Enterprises	57	58	60	65	65	73	71	72	72	74	75	74
2.	Capital Employed	12071.69	12726.42	15936.92	16947.84	19956.05	25851.16	32450.54	38568.27	47872.04	56327.24	62092.20	62707.41
3.	Gross Turn-over/Sales	15152.69	17827.81	19386.90	21955.61	21458.88	23552.60	26860.07	33881.45	33018.76	35816.28	43882.25	52469.87
4.	Percentage of Gross Sales to Capital Employed	125.52	140.08	121.65	129.55	107.53	91.11	82.97	87.85	68.97	63.59	70.67	83.67
5.	Value of goods Produced/ Services rendered	15860.24	17712.53	19410.27	20196.57	21125.20	24980.49	28517.90	32846.84	34441.28	39057.76	46015.39	49075.97
6.	Cost of Production/ Services	16151.78	17856.33	19328.10	20139.84	20853.68	24780.19	28609.58	32473.54	33813.56	38045.12	44506.02	46649.30
7.	Gain/Loss from operations (5-6)	-291.54	143.80	82.17	56.73	271.52	200.30	-91.68	373.30	627.72	1012.64	1510.37	2426.67
8.	Other Income	493.36	334.42	343.92	540.29	487.81	676.45	789.81	887.17	1135.49	1050.55	1172.58	1218.61
9.	Profit/Loss before tax (7+8)	201.82	190.62	426.09	597.02	759.33	876.75	698.13	1260.47	1763.21	2063.19	2682.96	3645.28
10.	Tax Provision	139.53	115.75	212.60	316.84	367.29	477.16	393.63	659.69	652.09	888.16	1099.66	1440.85
11.	Net Profit/Loss (9-10)	62.29	74.87	213.49	280.18	392.04	399.59	304.50	600.78	1111.12	1175.03	1583.29	2204.43
(a)	Profit of Profit Making Enterprises (No. of Enterprises)	423.63 (41)	474.80 (42)	728.40 (39)	523.94 (41)	720.10 (42)	856.04 (47)	983.16 (42)	1259.07 (47)	1902.02 (49)	2121.02 (45)	2431.54 (49)	3041.66 (50)
(b)	Loss of Loss Making Enterprises (No. of Enterprises)	221.81 (16)	284.18 (15)	302.31 (19)	243.76 (22)	328.06 (22)	456.45 (25)	678.66 (29)	658.29 (25)	790.90 (23)	946.17 (28)	848.25 (26)	837.23 (22)
(c)	No.of Enterprises newither making Profit nor Loss	(0)	(1)	(2)	(2)	(1)	(1)	(0)	(0)	(0)	(1)	(0)	(2)
12.	Percentage of net Profit/ Loss to Capital Employed	10.93	11.89	11.54	1.65	1.96	1.55	0.94	1.56	2.32	2.09	2.5	3.5
13.	Interest Charged	1117.05	1323.04	1412.45	1281.70	1256.26	1728.90	2477.11	3195.44	3590.13	4258.50	5117.30	5285.30
14.	Gross Profit/Loss (9+13)	1318.87	1513.66	1838.54	1878.72	2015.59	2605.65	3175.24	4435.91	5353.34	6321.69	7800.25	8930.58
15.	Percentage of Gross Profit to Capital Employed	10.93	11.89	11.54	11.09	10.10	10.08	9.97	11.50	11.18	11.22	12.56	14.24
16.	Dividend	17.96	19.01	112.56	119.02	119.35	47.49	133.15	155.95	190.98	257.22	288.77	421.21
17.	Retained Profit (11-16)	44.33	55.86	100.95	161.16	272.69	352.10	171.35	444.83	920.14	917.81	1294.52	1783.22
18.	Value Added	-	-	-	-	-	-	-	-	-	-	-	-
19.	Export Earnings	2701.72	2553.72	2939.91	2967.12	3439.90	6881.97	4639.36	5576.28	5856.36	6827.56	8250.42	9679.14
20.	No.of Employees including casual employees (in lacs)	2.82	2.88	3.55	3.51	3.65	3.69	3.59	3.55	3.54	3.43	3.43	3.39
21.	No.of Casual employees (in lacs)	0.11	0.11	0.29	0.25	0.27	0.27	0.30	0.22	0.17	0.07	0.07	0.08
22.	Average Annual Per Capital Emoluments (in Rs.)	29829	33228	32489	37988	48076	49676	58403	63714	79651	86230	9416400	11722600

SOURCE: Table prepared, in the present form, by the author with the help of data taken from various issues of the Public Enterprises Survey, Bureau of Public Enterprises,Ministry of Industry, Government of India, New Delhi.

also clear from the figures presented in the table that profits of the profit-making concerns increased from Rs. 423.66 crores in 1984-85 to Rs. 3041.65 crores in 1995-96 with rate of growth of 618 per cent over the period. Likewise, losses of the loss-making servicing enterprises increased from Rs. 221.81 crores in 1984-85 to Rs. 837.23 crores in 1995-96 recording a growth of 277.45 per cent over the years. The net pforit of the service group of enterprises, except for the year 1990-91, has been positive over the period with slight variations here and there.

GROUP-WISE PROFITABILITY :

Table No. 3.10 presents overall picture of net profit/loss in different cognate groups for a period of five years from 1990-91 to 1994-95.

As is evident from the table the Manufacturing as well as Service Sectors both have improved their profits by Rs. 3595.27 and Rs. 1349.99 crores respectively over the period of five years from 1990-91 to 1994-95.

As is evident from the table the Manufacturing as well as Service Sectors both have improved their profits by Rs. 3595.27 and Rs. 1349.99 crores

TABLE NO.3.10

Cognate Group-wise Trend of Net Profit/Loss of PSUs

(Rs. in crores)

Cognate Group	1990-91	1991-92	1992-93	1993-94	1994-95
(A) Enterprises Manufacturing Goods					
Steel	-350.68	-630.02	-200.27	-116.73	720.18
Minerals and Metals	255.24	437.46	373.62	231.04	629.08
Coal and Lignite	-160.00	266.63	369.46	511.45	203.05
Power	851.46	1108.66	1029.01	1013.53	1104.45
Petroleum	2298.86	1779.32	2330.28	3947.48	4563.55
Fertilizers	-346.36	-394.82	-564.76	-272.81	-377.33
Chemicals & Pharmaceuticals	-53.29	-76.13	38.12	-15.90	481.97
Heavy Engineering	-126.28	-114.93	-107.38	-369.91	-431.99
Medium and Light Engineering	60.37	55.44	111.91	-48.85	-180.14
Transportation Equipment	-53.10	-117.87	-134.69	-165.63	-70.42
Consumer Goods	-194.38	-237.41	-414.36	-699.26	-643.13
Agro based Industries	-8.42	-8.18	-11.28	-3.88	3.38
Textiles	-205.77	-313.46	-650.10	-640.68	-439.73
Total (A)	1967.65	1754.69	2169.56	3369.85	5562.92

Contd...2...

TABLE NO. 3.10 CONTD.

(Rs. in crores)

Cognate Group	1990-91	1991-92	1992-93	1993-94	1994-95
(B) Enterprises Rendering Services					
Trading and Marketing Services	190.63	183.37	153.49	122.94	137.33
Transportation Services	-54.70	-75.18	123.51	-31.57	-48.00
Contract and Construction Services	-125.57	-119.09	-125.44	-234.42	-196.89
Industrial Development and Technical Consultancy Services	-30.96	-10.00	244.98	231.52	257.23
Tourist Services	-12.12	-9.78	-4.40	3.94	31.67
Financial Services	149.30	347.73	376.53	545.15	569.51
Telecommunication Services	181.65	275.37	320.74	520.26	879.65
Section 25 Companies	6.27	8.36	12.24	17.21	23.99
Total (B)	304.50	600.78	1101.65	1175.03	1654.49
Grand Total (A+B)	2272.15	2355.47	3271.21	4544.88	7217.41

Source : Public Enterprises Survey, Bureau of Public Enterprises, Ministry of Industry, Government of India, New Delhi, 1994-95.

respectively over the five year period under review. The combined profits of manufacturing and servicing PSUs also improved from Rs. 2272.15 crores in 1990-91 to Rs. 7217.41 crores in 1994-95 bringing a net addition of Rs. 4956.26 crores to the net profit over the five year period. Individually, petroleum, Steel, Chemicals & Pharmaceuticals, Mineral & Metals and Telecommunication Services have all improved their profits during 1994-95 substantially while the net profits of coal and lignite, medium and Light Engineering have declined. The largest increase in net profit was in Steel (Rs. 836.91 crores) whereas largest increase in net loss was in Fertilizers industries (Rs. 104.52 crores) over the period under review..

The Table No. 3.11 gives cognate group-wise ratio of gross profits to capital employed from 1990-91 to 1994-95 to highlight relative profitability, i.e., gross return on investment of each cognate group. In fact, gross profit ratio to capital employed serves as an invaluable clue to the pricing policy of an organisation in addition to serving as a useful means of verifying the accuracy of the trading results ascertained in respect of each accounting period.

TABLE NO.3.11

Ratio of Gross Profit to Capital Employed in PSUs

(Rs. in crores)

Cognate Group	1990-91			1991-92			1992-93		
	Gross Profit	Capital Employed	Ratio of GP to CE	Gross Profit	Capital Employed	Ratio of GP to CE	Gross Profit	Capital Employed	Ratio of GP to CE
(A) Enterprises Manufacturing Goods									
Steel	226.46	10478.12	2.16	301.99	11437.55	2.64	747.03	14404.81	5.19
Minerals and Metals	548.42	5662.50	9.69	817.71	7075.16	11.56	704.60	7298.33	9.65
Coal and Lignite	428.08	7862.42	5.44	928.61	9616.33	9.66	1156.34	10160.44	11.38
Power	1347.65	13394.02	10.06	1827.80	17006.11	10.75	1740.59	19934.25	8.73
Petroleum	4324.04	19093.26	22.65	4183.46	20397.53	20.51	4423.74	25513.19	17.34
Fertilizers	20.50	2780.48	0.74	189.93	2481.85	7.65	164.04	2425.02	6.76
Chemicals and Pharmaceuticals	145.16	1242.80	11.68	206.77	2174.22	9.51	388.52	2388.38	16.27
Heavy Engineering	241.22	1930.62	12.49	184.83	2270.23	8.14	362.42	2455.44	14.76
Medium and Light Engineering	415.62	2801.20	14.84	485.39	2974.20	16.29	657.39	3787.57	17.36
Transportation Equipment	305.66	2426.41	12.60	264.89	2327.90	11.38	323.62	2365.43	12.61
Consumer Goods	-1.18	1063.29	-0.11	1.91	935.91	0.20	-113.23	730.45	-15.50
Agro based Industries	0.05	59.02	0.08	3.34	75.76	4.41	0.43	97.78	1.55
Textiles	-75.37	838.78	-8.99	-157.36	650.06	-24.21	69.64	300.18	23.20
Total (A)	7926.31	69632.92	11.38	9239.27	79422.81	11.63	10625.13	92061.27	11.54
(B) Enterprises Rendering Service									
Trading and Marketing Services	1153.46	8558.73	13.48	1422.20	8049.20	17.67	1288.22	10590.65	12.16
Transportation Services	398.79	5939.71	6.71	501.94	7532.91	6.66	715.12	7649.03	9.35
Contract and Construction services	-14.46	559.52	-2.58	13.50	616.46	2.19	36.28	582.20	6.23
Indl.Dev.and Technical Consultancy Services	58.90	377.81	15.59	100.03	571.70	17.50	530.94	4099.15	12.95
Tourist Services	1.80	166.54	1.08	8.94	164.98	5.42	13.30	159.97	8.31
Financial services	1127.37	13167.64	8.56	1624.56	16867.01	9.63	1869.39	18767.50	9.96
Telecommunication Services	440.68	3641.06	12.10	753.39	4692.73	16.05	884.75	5907.21	14.98
Section 25 Cos.	8.70	39.53	22.01	11.35	73.28	15.49	15.34	116.33	13.19
Total (B)	3175.24	32450.54	9.78	4435.91	38568.27	11.50	5353.34	47872.04	11.18
Grand Total	11101.55	102083.46	10.88	13675.18	117991.58	11.59	15978.47	139933.31	11.42

Contd.....

TABLE NO. 3.11 CONTD.

(Rs. in crores)

Cognate Group	1993-94			1994-95		
	Gross Profit	Capital Employed	Ratio of GP to CE	Gross Profit	Capital Employed	Ratio of GP to CE
(A) Enterprises Manufacturing Goods						
Steel	1023.67	18025.28	5.68	1882.17	18782.93	10.02
Minerals and Metals	542.71	7110.13	7.63	940.60	7091.77	13.26
Coal and Lignite	1391.75	11957.91	11.64	960.20	12823.21	7.49
Power	1754.57	22342.45	7.85	1905.44	22773.57	8.37
Petroleum	5757.22	30201.50	19.06	7254.27	27363.10	26.51
Fertilizers	518.17	1996.76	25.95	515.89	1108.59	46.54
Chemicals and Pharmaceuticals	303.31	3180.99	9.54	789.41	3488.41	22.63
Heavy Engineering	181.38	2038.90	8.90	207.03	1358.15	15.24
Medium and Light Engineering	564.46	3997.65	14.12	309.59	3951.45	7.83
Transportation Equipment	410.49	2702.96	15.19	399.94	2332.73	17.14
Consumer Goods	-357.67	66.19	-540.37	-242.36	-331.95	73.01
Agro based Industries	6.50	95.62	6.80	12.37	102.89	12.02
Textiles	137.22	-207.14	-66.25	-291.51	-633.38	46.02
Total (A)	12233.78	103509.20	11.82	14643.04	100211.47	14.61
(B) Enterprises Rendering Service						
Trading and Marketing Services	1654.51	12603.48	13.13	1965.93	14579.25	13.48
Transportation Services	679.44	9830.25	6.91	960.24	10183.61	9.43
Contract and Construction Services	-32.89	431.36	-7.62	44e.20	-305.15	-14.48
Indl.Dev.and Technical Consultancy Services	525.19	4744.93	11.07	599.36	5376.66	11.15
Tourist Services	33.74	161.67	20.87	63.55	172.73	36.79
Financial Services	2145.63	20822.10	10.30	2436.84	21866.04	11.14
Telecommunication Services	1296.83	7504.94	17.28	1776.25	8831.82	20.11
Section 25 Cos.	19.24	228.51	8.42	26.11	394.58	6.62
Total (B)	6321.69	56327.24	11.22	7872.48	61099.54	12.88
Grand Total	18555.47	159836.44	11.61	22515.52	161311.01	13.96

Source : Public Enterprises Survey, Bureau of Public Enterprises, Ministry of Industry, Government of India, New Delhi, 1991-92, 1992-93, 1993-94, 1994-95.

The gross profit to capital employed ratios show a divergent trend over the period. It means that the PSUs have not followed any consistent policy of gross margins. Another fact which comes to light from the figures is that all those PSUs which had to face any competition from the private sector have not only not been capable of competing with the private sector units but, in fact, have suffered heavy losses. The glaring examples are those of the textile, fertilizers and other consumer goods units working under government control. It may further pointed out here that Gross Profit to Capital Employed ratio is not the final indicator of the overall profitability of any concern as is evidenced by the figures given in the table. Many enterprises which earned substantial gross profits have ultimately suffered net losses.

Again, it may be pointed out that in case of PSUs rendering services only those undertakings have shown profits which have been working either as absolute monopolies like telecom, Section 25 Companies and those engaging themselves in trading and marketing (by and large inter-government departmental transfers). For example, PSUs engaged in contract and construction activities and transportation have, for most part, sustained losses. Moreover, after the

implementation of a number of liberalisation measures, situation has radically changed even for those PSUs which had been earning profit mostly either because of their monopoly rights or undue government protection. Again, the years 1993-94 and 1994-95 were the boom years for the Indian economy as a whole. During these two years many of the loss-making undertakings have also shown profits. The situation for 1995-96 and 1996-97, for which the data are not available, will surely be quite different.

Having examined the performance of the PSUs from different angles and having reached the conclusion that, except for a few PSUs, their performance has not been upto the mark in many respects, we now turn to comment on the privatisation of Indian PSUs. It must also be admitted here that apart from the poor performance of our PSUs another important reasons for privatisation and globalisation of our economy have been the unprecedented changes in the World during the late 'Eighties' and the early 'Nineties'. The following chapter dwells upon the privatisation measures taken by the Government of India vis-a-vis changing world economic and political scenario.

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CHAPTER- IV

PRIVATIZATION OF PUBLIC SECTOR UNDERTAKINGS-CHANGING INDIAN SCENARIO & ANNEXURES

CHAPTER - IV

PRIVATIZATION OF PSUs - CHANGING INDIAN SCENARIO

In the previous chapter we have examined the performance of the PSUs from different angles. Though the Indian PSUs did lay down infrastructure for the overall economic development of the country, the cost at which it has been laid down comes so high that a developing country like India cannot afford it. It is against this background that the present chapter examine the issue of privatisation of the PSUs.

The people of Asian, African and Latin American continents started their freedom movements in mid-twentieth century. The national movements in different countries had been educating the masses against the exploitation by the colonial powers as well as merits of socialistic pattern of society. The same philosophy was put forward by Indian leadership before the masses during its freedom struggle. All national leaders were ideologically convinced that it is only the Russian pattern of development which can bring about rapid industrial growth of the country and can successfully tackle with all problems of mass poverty, unemployment, etc. The leadership was also of the view, as in many other countries, that the State

alone had the entrepreneurial ability to create such a dynamic sector in the core and infrastructural field as would boost up development of the whole economy.

Accumulation of capital was considered to be the route for accelerated growth and therefore major investments were directed towards capital intensive industries like, heavy industry, oil, mines, petroleum, heavy chemicals, and a host of other areas through planned programmes. This was legitimized through the Industrial Policy Resolution of 1956 in which the Private Sector was kept away from taking part in such major industrial activities.[1]

Successive Five Year Plans saw the investment increase from Rs. 29 crores in 5 enterprises in 1951 to Rs. 712,99 crores in 231 enterprises in 1988. The estimated investment as on April 1, 1992 is placed at well over Rs. 13,58,710 million in 246 State enterprises. This interventionist approach was also supported by the international aid agencies in one form or the other. Thus, the State intervention was not restricted to the creation of new assets in basic industrial activities only but it spread, in the form of nationalization, towards Financial Institutions, General Insurance, Coal Industries, a number of heavy & light engineering industries, jute industries and a

host of others like, steel, minerals, metals, power and petroleum etc. While in most of the basic areas the State enjoyed monopoly, in other fields the stake of the State was heavy. The IPR of 1956 accorded commanding heights to the PSUs and the growth of private sector was restricted, with strictest tariff measures. The growth of large industrial houses was restricted through the operations of MRTP Act 1969 and foreign equity participation was restricted to 40 per cent. The concept of mixed economy was allowed to function under stringent control and in conformity with plan objectives.

To provide large scale employment opportunities and make large quantities of consumer goods available, development of small scale industry was encouraged by reserving items for the SSI Sector, by providing price advantage and a number of other fiscal incentives. The State in this regard confined itself to the development of infrastructure only. Thus, the overall industrial structure of the country was divided between the organized sector consisting of the private and public sectors, with dominants of the latter, and unorganized small scale industrial sector with a large number of terms reserved for it.

The results of the foregoing planning pattern, were, however, not encouraging. In majority of the

cases the laid down targets could not be achieved. A number of projects could not be implemented on time causing significant cost overruns and the lack of satisfactory performance of the PSUs in generating adequate surpluses to plough back for sustained economic development created serious problems.

The rate of return on investment ranged from 1.1 per cent in 1981 to 4.4 per cent in 1989 which further declined to 2.2 per cent in 1990. Of the total of 246 PSUs, more than 100 PSUs suffered losses year after year. Of the remaining PSUs which earned profit, those in the petroleum sectors performed better. It must be mentioned here without fear or favour that whatever profits were earned by the PSUs were more due to their monopolies and the inter-government departmental transfers rather than to their efficiency. In the absence of competition from the private sector the PSUs were well-protected from all sides. This situation created wide gap between investment needs and the resources required that should be arranged through revenue collection.

Under the circumstances, Government had no option but to borrow money from internal as well as external markets. To reduce such gaps year after year,

the sources of soft loan, available earlier, dried up and most of the borrowing was available only on commercial terms. The intensity of debt burden can be imagined from the fact that it has gone up to the level of over rupees 202972 crores upto September 1992 and the internal burden exceeds at about rupees 355800 crores. It takes more than one-fourth of the GDP to service our external debt. The Government of India had no option but to tighten its belts on PSUs losses and non-essential expenditures simultaneously. International aid agencies have been pressing hard for structural adjustment in the economy so that the country may be able to serve its external debt without much difficulty.

Whatever happened in India, the same situation prevailed, with the difference of degree only, in a host of other countries. The failure of the perception of planned development gave way to market-oriented development policy. The philosophy is gaining ground in developed as well as developing countries that the economies of the nations should be liberalised from Government control, restrictions and regulations, to allow market forces to play their role in reshaping the economy of a country. The U.K. during the last decade, with conservative rulers, successfully

privatized a number of its public enterprises.

Convinced by its success, a number of countries from different continents have either started implementing privatization scheme as a measure of economic recovery or are committed to do so. It may also be mentioned here that dismemberment of earstwhile USSR has led all its allies to say good bye to the Government control of industrial licensing and to adopt market orientation of their economies so much so that the communist China has also opened the doors of its closed economy to the international competition.

The Indian industrial policy, specifically with regard to PSUs, had been under heavy attacks from the very beginning. Upto the beginning of the 1980s a number of industrial policy statements were issued but, in fact, all of them contained special features of the IPR of 1956. It was only late Mr. Rajeev Gandhi who initiated some liberalization measures in 1985 which marked the beginning of liberalization of Indian economy. The end of 'Eighties' and beginning of the 'Nineties' witnessed the changes of so far reaching consequences, which, a few years back, no body could have even dream of. Disintegration of the Soviet

Union, re-unification of two Germanies and giving up of the centralized planning by all the countries which were under earstwhile Russian influence giving way to the market orientation of their economies are but a few examples.

In India changes of far reaching consequences were taking place. On July 24, 1991, the Government of India declared New Industrial Policy which opted for radical changes from the policy pursued until then. The NIP, in fact, scraped control through licensing except in some strategic areas like defence, production of coal, petroleum, oil, drugs and few luxurious items. It diluted the MRTP Act, 1969 to enable large industrial houses to invest their surpluses and enhance foreign equity participation from 40 per cent to 51 per cent, proposed divestiture of 20 per cent of public shares in some of the PSUs, announced deregulation of a large number industries to free them from the shackles of bureaucratic control, dereserved a large number of items so far reserved for small scale industrial sector and opened its doors to the foreign competitors to encourage competition. Considering the protective measures followed in the past four decades of development, these measures were

really a good step. This invited a lot of criticism from different quarters, some of the people calling it a complete 'sale out' to the private sector while others supported the initiatives whole heartedly. The Government of India needs to implement these policy measures without loss of time to make the economy dynamic and bright.

Many socialist regimes as an alternative to the capitalism driven governments, not only survived for decades together but some of them met with tremendous success largely because of excessive regimentation, which suppressed the voice of the common masses and killed all sorts of private initiatives in political, social and economic spheres. A number of developing countries, in many parts of the world, firstly under the influence of the earstwhile Soviet Union and later on that of China followed socialistic policies and took over the existing efficient and growing undertakings and setting up the new ones, known by different names, such as Public Sector Undertakings, State-Owned Enterprises, Public Enterprises, Parastatals etc. either as government monopolies or under the effective government control. All such countries spent huge public funds on the PSUs and some of them claimed to be the 'model employer'

of huge working force.

With the passage of time all the PSUs in all the countries became inefficient because of over-staffing etc. Each and every worthy 'Chairman', 'Managing Director', Officer-on Special Duty, Minister' or 'Minister of State' etc. put his 'own men' in the PSUs because these undertakings belonged to the whole nation or government and nobody was responsible except the government for such acts. In the process, these countries eacted legislations favouring the work force. In the ultimate analysis, the governments lost millions and billions of dollars in the forms of not getting adequate returns on the capital invested, under-utilisation of capacities, strikes, manhours lost, low productivity, shrinkage in excise duty and tax income to the exchequer etc. Besides, the SOEs created structural distortions in the economies of a number of countries, leading to many crises.

It may not be out of place to mention here that the developed nations of the West like the U.K. and the U.S.A. had already experienced economic inefficiencies in the working of SOEs in their countries. It is because of this reason that U.K. and

the U.S.A. proved to be the leaders in privatisation though the process had already started in South Korea and Chile. Indeed, the process of privatisation has been crisis-driven all over the world though the reasons behind, objectives to be attained and concern of the political parties in different countries have not been very much different.

The main reason for privatisation in the U.K. was financial deficits whereas in Japan negative economic growth, reduction in tax revenue and financial crises were the main reasons. USA wanted to solve the problems of economic inefficiencies and financial losses Russia, Argentina and Chile had the same reasons for privatisation. Malaysia resorted to privatisation because of the problems of increasing government expenditures, budgetory deficits and deteriorating terms of trade. South Korea wanted to reduce excessive government control whereas India suffered from severe balance of payments and other financial deficits before it announced its structural reforms programme. While Mexico suffered from severe economic lapses and inefficient state organisation, Zambia wanted to solve the problems of fiscal deficits and slow monetary expansion through privatisation. China's reason for resorting to privatisation was its

preference of economic modernisation to socialism. Thus, the reasons adduced for privatisation by all these countries were, summarily, the same, that is economic inefficiencies and the matters related thereto.

The objectives of privatisation have been to attain optimum efficiency by removing various hurdles through competition. In the U.K. the objectives were to ensure wide-spread ownership of PSU shares and reduce the power of labour unions. In Japan too the objectives were to overcome fiscal crunch by improving managerial efficiency through competition and get rid of the redundant labour force. The USA wanted to break the bureaucratic strongholds in order to reduce costs and increase efficiency in resource utilisation while China wanted to revitalise the SOEs in order to improve motivation and productivity through privatisation. Russia's main aim in privatisation was to transform non-competitive and inefficient monopolies into market-oriented enterprises. Argentina's main objective was to end state corporate huge many and reduce foreign debt while Chile and Mexico wanted to increase efficiency and productivity for maximising the revenue resources. Similarly, Malaysia wanted to reduce financial and administrative burden of the

government by promoting competition through improved efficiency and productivity while South Korea desired more equitable income distribution to benefit low income groups. India wanted to solve its BOP difficulties by getting rid of the incompetent and inefficient PSUs through improving productivity and managerial autonomy. It this way, the aim of most of the countries in privatising the SOEs was achievement of maximum economic efficiency through competition.

As mentioned in the foregoing paragraphs, a number of countries which resorted to privatisation were, indeed, compelled to do so and their governments, under the circumstances obtaining in their countries, thought privatisation as the only appropriate way out. The main concern of the policy makers in the U.K. was to tackle the opposition of trade unions and the cost of restructuring the economy while in Japan redundant massive workforce and confrontational labour-management relations were the main concerns for the success of privatisation. Russia was concerned with strong opposition of the political parties as well as the problems of SOEs valuation while in the USA policy makers were concerned with greater competition with more private participation in delivering public services. Likewise, Mexico had to

face strong opposition from trade unions whereas Chile faced the problem of transparency in divestitures and in Argentina policy makers were busy in tackling the labour, economic, institutional and legal problems. Peoples' perception of their ownership rights in South Korea, inadequate incentives and structural deficiencies in Zambia, equity and employment issues in Malaysia and trade unions with political support, unwidely size of many PSUs and widespread industrial sickness in India have been the main concerns of the policy makers.

Just as the main concerns of policy makers, their objectives and the reasons behind privatisation have differed from country to country, the modes of privatisation have also varied from country to country. Majority of the countries have preferred public offering of PSU shares. Argentina preferred private sale and joint ventures, Zambia opted for management contracts while India took up partial disinvestment of the PSUs. In a few cases like Air India and Indian Airlines, India has appointed executive officers from the private sector. The following chart No. 4.1 gives a synoptic view of privatisation in different countries of the world.

Country	Year/ Pioneer	Reasons for Privatization	Objectives of Privatization	Modalities	Special Features	Concern for policy makers Privatization
SOUTH KOREA	1969 Roh	- Excessive government control	- Equitable income distribution which will benefit the low income group	Non-divestiture options	- PE Reforms - Government acts as senior partner in search of efficiency	- Peoples perception of their ownership rights
CHILE	1974 Augusto Pinochet	- Inefficiency	- To finance financial deficit - To increase economic efficiency	Public offering	- Property ownership was distributed - Efficiency was improved - Dependence on public sector was reduced	- Lack of transparency in divestitures
U.K.	1979 Margaret Thatcher	- Financial deficits	- Promote wide share ownership - Reduce the power of trade Union	Public offering of shares	- Denationalisation - Introduction of 'Golden Share' - Key legislations passed - Importance of marketing techniques realised	- Trade Unions opposition - Social cost of restructuring
U.S.A.	1980 Ronald Reagan	- Economic inefficiencies	- To break bureaucratic stranglehholds - Reduced cost - Efficient use of resources	Contracting with the private firms	- New concept 'Reagonomics' introduced	- Increase competition
MEXICO	1983 Miguel de la Madrid	- Severe economic lapses	- To increase efficiency and productivity - Maximization of revenue	Public offering of Private shares	- Persistent courageous and difficult process of adjustment of large enterprises - Revenues put in stabilization fund	- Strong labour Unions - Started with Privatization
MALAYSIA	1983 Mahatir Mohammad	- Increase in Government expenditure, budgetary deficits - Deteriorating terms of trade and deficits in the external account	- To reduce financial and administrative burden of the government - To promote competition, improve efficiency and productivity	Public offering	- Built-in-safety clauses to protect the interest of sons of the soil	- Equity concerns - Unemployment

Country	Year/ Pioneer	Reasons for Privatization	Objectives of Privatization	Modalities	special Features	Concern for policy makers Privatization
ZAMBIA	1984 Kaunda	- Fiscal deficits Slow monetary expansion	- Restructured the overall investment holding company - Privatization all commercially oriented parastatals and public utilities	Management contracts	- Strengthened safety net - Strengthened central coordination	- Political commitment - Inadequate incentives
JAPAN	1985 Doko Toshio	- Financial crisis - Negative economic growth - Reduction in tax revenue	- Overcome fiscal crunch - Increase efficiency and competition - Eliminate redundant work force	Fragmentation Public offering of shares	- Deregulation - Special fund for financial support - Cautious opening of the market	- Massive redundant labour force - Confrontational labour management relation
RUSSIA	1987 Gorbachov	- Inefficiency	- To transform non-competitive and inefficient monopolies into market oriented enterprise	Vouchers to every Russian citizen born before Jan. 1, 1991	- Role of foreigners in divestiture	- Political opposition - Enterprise valuation
ARGENTINA	1989 Carlos Menem	- Inefficiency - Losses/deficits	- End to the state corporate hegemony - Reducing foreign debt	Private sale Joint Venture	- Strong Trade Unions - Political instability - Government administration reforms	- Economic Problems - Enterprise valuation problems.
CHINA	Mid 1980s Deng Xiaoping	- Poor management - Inefficiency - Financial losses - Resources wastage	- Revitalise enterprises - Improve motivation and productivity	Non-divestiture options	- Economic reforms - Focus on control property rights	- Role of political parties
INDIA	1991 Narasimha Rao	- Severe fiscal and balance of payments deficits	- Improve governments financial position - Improve the performance of PEs by increasing efficiency, managerial autonomy.	Disinvestment	- Preference for greenfield, cold privatization - Improvement of performance through MOU	- Trade unions with political support - Large size of many PEs - employee ownership

It will be clear from the chart that leaders of different countries, at different times have taken resort to different forms of privatisation of the SOEs in their countries in accordance with the circumstances prevailing in their countries, one factor which has been common with respect to the PSUs in all the countries, irrespective of the philosophy of development followed by them, is that they, except for some initial years, started breeding inefficiencies. Labour-friendly legislations, over-staffing, under utilisation of installed capacities, strikes resulting in millions of manhours lost involvement of political parties etc. made things so complicated that almost all the SOEs, except for a few for reasons explained elsewhere, become white elephants for their respective governments. The governments, in the ultimate analysis, were left with no choice except to put them into private hands.

The process of privatisation has already set in though its speed in some of the countries is very slow. In India, though the government initiated structural reforms five years ago, there is hardly any change in bureaucratic attitude. The need of the hour is bring about a sea-change not only in our policy measures but in the attitude of all those who are at

the helm of affairs if the process of privatisation is to yield results for the benefit of the common men.

After out-lining the world-wide trends in privatization that have taken place in the past decade and economic and political benefits emanating therefrom, let us analyse the concept of privatization itself.

Although privatization seems to have been gaining world-wide recognition as many countries of the world have implemented rigorous reform programmes of liberalization, delicensing and privatization of PSUs, no uniform definition of the world 'privatization' appears to exist.* The term has been so widely and variedly used that it conveys different meanings from case to case and country to country. It is to be understood not merely in the structural sense of who owns an enterprise but, in the substantive sense of how far the operations of an enterprise are brought within the description of market forces.[2]

Cook and Kirkpatrick, on the other hand, approach privatization from three different angles. According to them privatization, firstly, refers to a change of ownership of an asset or part of it from public sector to private entrepreneur through the

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* List of Developing Countries Implementing Privatization Programme is given in Annexure III.

process of denationalization or divestiture. Secondly, privatization can be brought in by allowing the private sector to enter into the areas until now protected for the public sector and thirdly, privatization can be introduced by way of contracting out the services and utilities while retaining the ownership with the Governments.[3] Vuylesteke[4] has identified the following means as links to the broad concept of privatization:

(a) Introduction of competitive features into public sector.

(b) By bringing in economic policy reforms like demonopolising certain activities or products or liberalizing or removing regulatory hurdles on business. These may also be brought about in combination with divestiture.

(c) Increased use of private sector financing of new activities such as contractor equity financing or switch in source of financing for the supply of goods or services from taxation to user charge.

(d) Privatization by "Attrition" where the public sector operates as a quasi-monopoly but not allowed to review investment and the private sector is gradually permitted investment

ultimately taking over the whole or part of the unit.

(e) Contracting out in which the private sector is substituted for public sector in the area of services and utilities like water supply, sewage treatment, refuse disposal, building, maintenance etc. In this system the contractors follow the government procedures and maintain the plants and equipments at their costs.

(f) Complete liquidation of public sector with assets sold to the private entrepreneurs.

In fact, privatization consists of all those steps taken by a government which are directed towards (i) helping and encouraging private sector to undertake more economic activities and become efficient and competitive and (ii) effecting transfer, partially or full, of public enterprises to private sector with a view to achieving efficiency, productivity, profitability and simultaneously to ensure fair awareness towards social obligations.[5] Mansour[6], while recognizing the fact that the privatization is commonly viewed as a process by which public sector, assets are transferred to the private sector, has further added that there are fewer direct ways of

changing public sector to private sector by infusing competition through the process of liberalization of protected market and by encouraging private provision of public financed goods and services.

E.S. Savas says[7], 'privatization has already acquired a broader meaning, it has come to symbolize a new way of looking at society's needs, and a rethinking of the role of government in fulfilling them.

According to S.R. Mohnot[8], 'Privatization is induction of management control, via transfer of ownership or otherwise, often both, in public owned or managed enterprises. It has also been remarked that Privatization is a process in which the intervention of the state gradually declines in the economic activities of a nation by shifting state ownership and regulation of means of production and distribution.[9]

Commander and Kilick[10], in this context, have related the current emphasis on privatization as a part of a more general rehabilitation of the use of the prices and markets as a mechanism for the allocation of resources. According to them it is the outcome of an intellectual disillusionment with more Keynesian and more interventionist approach to economic management.

The connotation of privatization is broad in terms of both government ownership and government regulation. Privatization implies measures that eliminate certain or all elements of publicness in an enterprise or in an economy.[11]

Venugopal Reddy,[12] explains Privatization as: Starting from the usage (since practice seems to have preceded theory), in the broadest sense, the word is used to describe any roll-back of state (or government) in the lives and activities of citizens, any activity strengthening the role of markets.

Privatization is, in fact, a recent phenomenon. The very word "Privatization" causes a lot of misunderstanding, premature polarization and arguments that are beside the point. Some believe that privatization is an attempt to restore completely free market. Others interpret the word as a check on the government or rolling back its activities. Generally speaking privatization refers to the transfer of activities from the public sector to the private sector. It can take a variety of forms. It can mean the sale of wholly-owned government enterprises either fully or in part. Privatization can also be a partnership between the government and business

through the transfer of responsibilities from the government to private sector.[13]

Public enterprises in India, as they exist today, owe their base and growth much to the Industrial Policy Resolutions of 1948 and 1956. The Resolution of 1956 considered the public sector as a means to realize the socialistic pattern of society. It was stated in the Resolution that 'the adoption of socialistic pattern of society as the national objective as well as the need for planned and rapid development required that all industries of basic and strategic importance or in the nature of public utility services should be in the public sector.'

The First Five Year Plan (1951-56) emphasized the need for rapid expansion of economic and social responsibilities of the State. The Second Five Year Plan (1956-61) did not want the public sector to be confined only to areas where the private sector was either unwilling or unable to go but to play a dominant role in shaping the entire pattern of investments.

Over the years, there have been much adverse comments on the functioning of public sector enterprises and it has been asserted that their performance is

not satisfactory as they have not fulfilled the desired financial objectives. A certain dilution of public enterprises is also advocated in the context of securing overall efficiency and to meet the critical gaps. Hence, the idea of privatization has come to be very much convassed.

As the loss-making pubic enterprises do not have any place in the economy, a panel of economists realized that the loss-making public enterprises should not be a burden on the Government's finance. Such enterprises should either be; sold out, closed down or transferred to private entrepreneurs.

Privatization not only implies some kind and degree of demarketization but the measures that eliminate certain or all elements of publicness in an enterprise or in an economy. Hence, privatization may broadly be discussed in relation to :

(a) <u>Privatization at Macro Level</u> :

There are three stages of privatization at economy level :

(i) No expansion of public sector, or

(ii) Expansion of public sector at a lower rate, or

(iii) Reduction of public sector so that private sector expands.

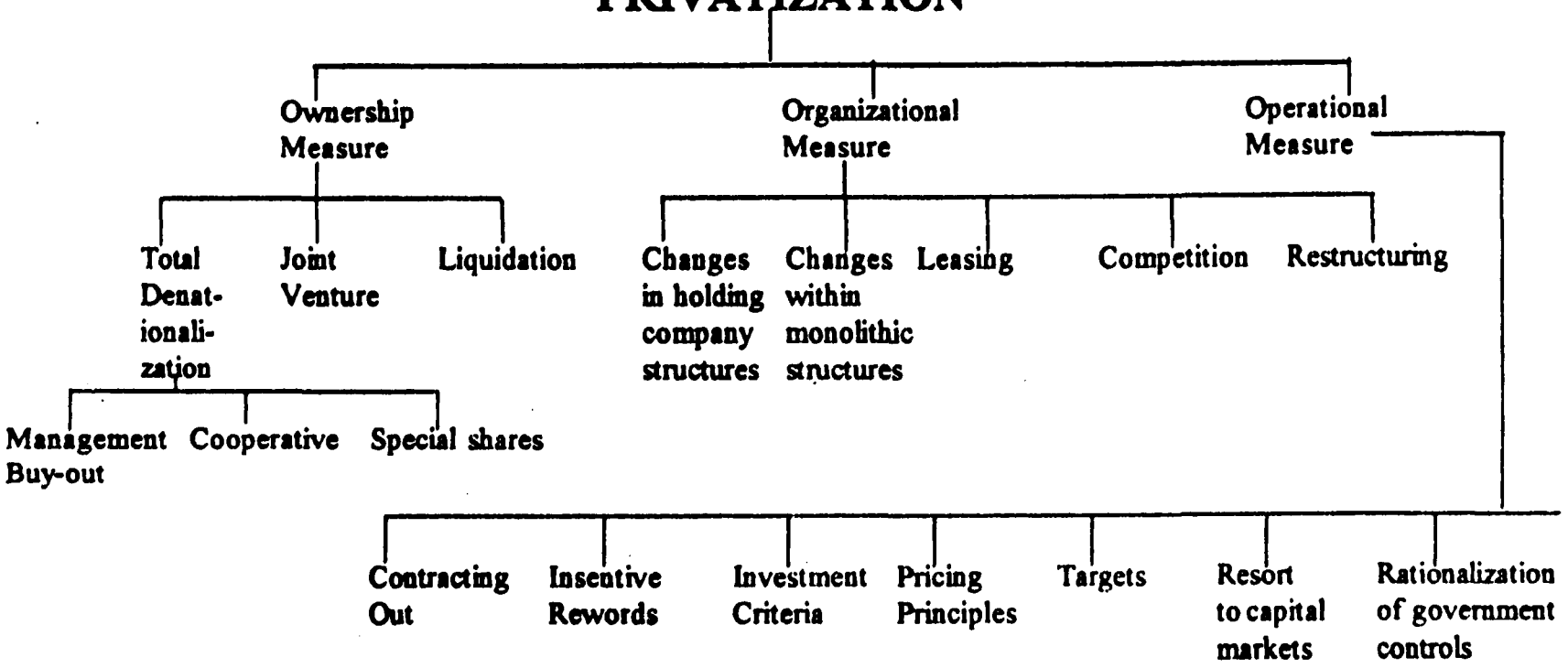
The stage of no expansion or expansion at a lower rate alongwith the stage of reduction in the public sector is high in U.K. while in India and other developing countries the second stage, i.e., expansion of public sector at a lower rate is adopted. The enterprises which have become mature and require no more government assistance may be privatized. At the same time, provisions of some essential goods and services may have to be taken up in the public sector. Privatization of the economy may be through reduction of investments in certain non-financial enterprises such as transport, trading, manufacturing etc., while increasing public investments in financial enterprises. The financial enterprises so created, may supply more capital to private investors. Besides, the increased investments in public financial enterprises may favour the attainment of social objectives such as evolution of small-scale industries, development of centrally notified backward areas, etc.

(b) <u>Privatization at Micro Level</u> :

There may be three specific measures for the privatization at micro-level, i.e., ownership, organizational and operational measures as depicted in Chapter No. 4.2.

CHART - 4.2

PRIVATIZATION IN MICRO DIMENSION



SOURCE: Ramanadham, V.V. (ed.) "Privatization of Developing Countries", Routledge, London, 1989, p. 5.

(i) Ownership Measures : This mainly refers to denationalization of public enterprises which may be legal or partial. Legal denationalization means transfer of majority ownership rights and benefits alongwith management to private enterprises. Partial denationalization implies transfer of ownership upto 49 per cent to the private entrepreneurs so that state holds majority ownership.

(ii) Organizational Measures: One of the organizational services for the privatization is the creation of a holding company, which will be under direct government control with subsidiaries working under market discipline within the general supervision of the holding company. Another organizational device for privatization is leasing the assets of a public enterprise, without disturbing ownership structure, to the best bidder and the ownership of the public enterprise is retained by the State and only the operations are given to the private parties. The lease agreement may consist of necessary terms and conditions guaranteeing to preserve publicness in the operations. This device of privatization ensure the government to assess the comparative benefits that the enterprise has in the public and private sectors.

(iii) Operational Measures : The elements of privatization can be introduced by encouraging the public enterprise management to acquire certain inputs across the market than produce them internally. This may yield two benefits. The input costs are likely to be low reflecting economies of scale of their supply. Secondly, it may promote ancillaries outside the enterprise. Another operational measures, suggested for privatization, in 'contracting out' certain ancillary services such as canteen, maintenance and cleaning of buildings, maintenance of parks, watch and ward, etc., to private parties.

Another operational measure bringing in elements of privatization is to force a public enterprise as if it were a private enterprise in the sense of being bound by market discipline in investments, cost minimisation, pricing and production functions. The criteria for these aspects can be laid down under market discipline.[14]

TECHNIQUES OF PRIVATIZATION :

It will not be proper to abruptly state that all public enterprises have absolutely failed to achieve their designated objectives and thus recommend

their elimination at a stretch by privatising them. It has been rightly observed that on account of Peculiar socio-political and economic environment and social systems, some of the public enterprises are indispensible. Similarly, some of the public enterprises have produced better and impressive results, even in comparison to the one, if their task was assigned to and performed by private entrepreneurs or institutions. Therefore, it will not be an exaggeration to state that for different environmental sets of the social system and for different types of public enterprises, different techniques will have to be used for privatising the public enterprises.[15]

E.S. Savas has undertaken extensive systematic study on the privatization issue. He has recommended the following four techniques[16] for privatization of the public enterprises as follows :

1. <u>Load Shedding or Transfer By Default</u> :

When this technique is applied an attempt is made to identify existence of the following conditions:

(a) that public enterprises (PEs) have failed to offer adequate and satisfactory services.

(b) that service rendered by PEs have failed to achieve reasonable expectation and have been very costly, and

(c) that the private sector is capable of rendering better services on comparatively lower cost.

The privatizationists propound that when above mentioned conditions exist in a social system, the private sector must step into, fill the void and satisfy needs of the people. These conditions are prone to the application of (Load Shedding Technique). An attempt is made to classify PEs according to their profitability and the process of privatization begins. It ends, where public enterprises in the identified industrial sectors are completely withdrawn.

2. **Limited Government Arrangement** :

This technique is applied when application of the Load-Shedding Technique is not possible. It promotes an arrangement in which government plays a limited role in economic activities. That is, institutional arrangements should be chosen so that the government is involved in only a minimal way.

3. User Charges :

It recommends for designing and implementing an arrangement in which user charges are levied on all providers of services including private as well as government controlled agencies. The user charge should be equal to full cost of service. Thus, it attempts to reflect true cost of service and offers an opportunity to the users to make comparison between the cost and quality of services provided by private and public enterprises. It may encourage users to patronize private institutions and facilitate the movement of privatizing of the public enterprises.

4. Competition :

It creates a situation of keen competition between private and PEs. It is believed that competition is the key to achieving better and cost-effective service. A monopolistic arrangement, whether governmental or private, is an invitation to poor performance.

Vuylsteke has categorized privatization into the following techniques:[17]

(1) Public offering of shares

(2) Private sale of shares

(3) New private investment in a state-owned enterprise (SOE).

(4) Sale of Government or State Enterprises' assets.

(5) Reorganization or fragmentation into small-units.

(6) Management/Employment buy out.

(7) Lease and management contract.

(1) **Public Offering of Shares** :

In this method, all or part of the shares of the public limited company are offered for sale to the public as a running concern. The government may decide to sell from the present holdings or may issue new public shares (primary) that will lead to increase in private shares into the capital of the enterprise. Primary issue that will lead to rise in private shares is with consequent dilution of the Government interest and control. If partial sales take place from present holding, the effect is conversion into a joint sector enterprise between the government and private share holders. This method has been pursued deliberately by most of the governments to ensure their presence into the company as a first step towards complete privatization. A partially privatized company may go for

further privatization depending upon the performance of the company and Government's policy objectives. In the U.K., most of the privatizations are following this route. Companies, such as British Telecom, British Gas Electricity Generation have been approaching from partial privatization towards complete privatization.

Offerings may be underwritten, as in U.K., France and Malaysia.[18] Most of the developing countries do not have underwriting capacity due to weak market and the foreign offerings cannot be underwritten. In such a case, the Government itself takes the risk as is true for National Commercial bank in Jamaica.[19] While implementing the decisions to go public, many sensitive issues may arise in the developing countries, and will necessarily need attention. The offerings for a PE with sound track records, which is the case in respect of a number of the public sector units in developing countries, the offerings are not only not easy but may even not be feasible also. In such cases the units will require a restructuring and turn around in operation before it can go to public. While no prescribed format exists for such restructuring, Vuylsteke[20] has listed the following common steps necessary as 'readying' process

for private offering of shares :

(i) Enterprise Diagnosis : This will consist of enterprise debt: equity position, capital structure and past financial performance. It may be necessary to review the financial statements and prepare new ones with sound financial accounting. The diagnosis will also require to examine the past operational results and present and indeed future market potential, concessions granted to the enterprise and their impact on the results. The physical conditions of the assets will also need to be professionally examined and needs for further investment estimated.

(ii) Satisfaction of Legal Requirements : Before a public enterprise can go direct to public, it is necessary to find out the creditors claims. Claims will include shareholders (if any), employees and other sundry creditors' loans that routinely debar the sale or disposal of assets or control under a certain percentage without creditors' consent. Also the issues relating to the guarantees provided by the Government for borrowing by public enterprises, it has to be decided on the fate of such guarantee when the unit is privatized.

(iii) Conversion of Legal Form : Most of the public enterprises will require a legal conversion from its present form before it can be privatized. A joint Government/Private Sector is an exception where the residual share holding or a part of it may be sold to the Government. In other cases the legal transformation may involve either a simple amendment to the Articles of Association or dissolution of an enterprise and transfer of its assets and liabilities to a new corporate entity. Many specific legal steps may need to be taken to convert a company to a joint stock corporation or public limited company under company laws before it can be offered to public or private purchasers.

(iv) Modification of Overall Legal Framework : Occasion may arise when conversion of legal structure needs to be accompanied by ancillary legal changes. There may be a revision of special privileges such as termination of monopolies, establishment of a licensing system, introduction of a revised regulatory system for utilities and so on. The purchasers may seek various commitments from the Governments so that they can operate the enterprise satisfactorily. Similarly, the Government may seek commitments from the purchaser to ensure future financial and economic

behaviour of a company it sells. Typical commitments sought by the purchasers include freedom of transfer of capital and distributed income, the assurance that the investor can wind up the company and freedom from price control. When Togo[21], for instance, signed an agreement with the Pan Africa Textile Corporation, the convention d'Establishment signed a part of the privatization arrangement that provided, among others, for stability of legal regime, free transfer of capital and earnings, customs, tax and financial guarantees and assurance that the Government would not establish or encourage the establishment of another textile enterprise with the same line of products.

However, this last clause itself can be a source of controversy about the real intention of the Government to infuse competition or unduly protect the purchaser. It is, therefore, necessary that in reviewing ancillary arrangements, extreme care should be taken to evaluate the long term cost-benefit analysis versus immediate return on completion of a transaction. Sometimes dissolution and liquidation may be a preferred choice than selling it with excessive concession although the former will cause immediate problem of unemployment.

(v) Financial Restructuring : To enable the SOE to be sold, it is necessary to have balance sheet restructuring and take other ancillary financial measures. The degree of necessary changes varies from unit to unit depending largely upon the manner in which it was operated. Important measures include writing down of assets, reduction in liabilities, recapitalization and spinning off of assets. It may, at times, be very difficult to justify the extent of restructuring, particularly for non-profitable enterprises. Also the restructuring, in itself, is not an assurance of it becoming a going concern or making it profitable but may only establish the necessary condition for the profitable operations.

For excessive debt by the public enterprises, it becomes difficult to sell them without sorting out the issues relating to liabilities and working out its net worth. In many such cases the Government takes the responsibility of the debt either by writing it off in part or full or by transferring the same to the purchasers in which case the sale price will be reduced to bare minimum. The U.K. Government[22] has, as an original borrower, written off substantial debts of many SOEs converting them into equity to improve upon the balance sheet before going for sale. Other debts

were negotiated. Injection of new capital by new entity, offering of new primary shares with sales or by way of converting the assets of the enterprise as its equity and allowing private sector to participate with fresh equity, usually in the ratio of 49:51, may be resorted to.

(vi) Physical Rehabilitation : An assessment of physical assets and need for rehabilitation is important for making the privatization offer attractive. Run down plants and equipments may need replacements and renewals, excess property could be disposed off and so on. Controversy arises whether rehabilitation should be done before privatization or not. It is concurable that prior rehabilitation would improve the conditions for privatization, but may not necessarily recover the cost of rehabilitation and would, therefore, be a subject of political criticism. In my opinion, any physical rehabilitation may be left to the purchasers since their technological perception may be different from that of the existing management. However, it would be necessary to make a detailed examination and clear picture of the situation must be known without any ambiguity at all.

(vii) Change with Respect to Staffing : This is one of the most important issues for privatization of SOEs in developing countries in particular. Privatization is invariably related to labour rationalisation and hence large scale redundancy. It will be more so in developing countries where almost all the public units are over manned. Also, most of the units will need upgradating of plants and equipments that has to be linked with labour rationalisation. At the same time, labour laws are quite rigid and it will be difficult to attract a potential buyer if agreement on this issue cannot be arrived at before sale.

Over staffing is generally a problem in most of the State Sector units in India. Even when substantial investments are made for modernization and upgradation of technology, rationalization of work force becomes difficult. This hikes the cost of production making the unit uncompetitive. Unless an acceptable solution to this problem is worked out, any move towards privatization can be in serious jeopardy. It is, however, true that all the public sector units may not pose the problem of surplus workforce and the long term effect of privatization may be the prospect of creation of more job opportunities. One may need to feel the immediate problem adequately in order to

make privatization a success. Japanese Railways had to layoff 92,000 employees, constituting one third of its workforce, after privatization while Jaguar in Britain created 2,000 jobs after it was privatised.[23]

(viii) Management Co-operation : To make the privatization initiatives successful, it is absolutely necessary to secure management cooperation. After all, it is the management which has to carry out the decision. However, not all existing managements share the concept and any half-hearted effort is bound to result in a failure. It may, therefore, be useful to bring in a change in the management structure replacing existing board of directors by those favourable to the idea before the move is made. The top management of a dozen of about 25 enterprises were replaced before moving them into privatization in U.K.[24]

2. Private Sale of Shares :

In this method all or part of the shares of SOEs are sold to a pre-qualified private individual or a group of purchasers. This may be acquisition by a private corporate sector. The private individual is included the institutional investors inclusive of

mutual funds or banks. The sale of government's shares in an SOE normally involves a wide search for potential bidders in two ways, viz. competitive bidding and direct negotiation. In pre-qualifying the potential purchasers, the Government must look into the financial, technical and managerial strength of the candidates and their track record of performance. In case of joint sector, the Government may simply decide to sell the shares to the private entrepreneurs. The SOE may be in need of readying activities such as restructuring balance sheet, alleviation of liabilities. Therefore, certain important steps the Government must take before going to market offer of shares.Since the process offers a lot of discretionary power, it is necessary to follow a well set out procedure regarding pre-qualification of bidders to avoid future criticism. In fact, this procedure may raise some problems such as restructuring employment before private sales, particularly in loss incurring enterprises, where job loss is inevitable on sale. Also, criticism may have to be faced on pricing aspects and in selection of private purchasers. Strict compulsory procedures should be able to resist such criticism to a large extent.

3, New Private Investment in a State-Owned Enterprise (SOE) :

Under this category of privatization, primary share issues are subscribed by the private sector or public. Here the transaction consists basically of the sale of assets, rather than shares in a going concern. The Government may go to the public for selling new shares and gradually such offering can go on rising untill the private holding becomes large enough to hold control over the board. Thus, the assets may be sold individually or be sold together as new ones to withdraw from it. The sale of assets are based on competitive bidding or done by auction. It can also be concluded after direct negotiation with a pre-identified party. In the latter case, it will often be preceded by a complex investor search. Again a week public sector unit may need balance sheet restructuring to make it attractive enough to private investors and details regarding potential job losses will need to be carried out.

4. Sale of Government Enterprises Assets :

Here the assets of the public sectors are sold as private sdale instead of shares. It is of two types: One, in which an enterprise may like to sell

part of its excess such as extra land or a holiday home to raise necessary funds, and the other in which the company needs to sell its entire assets to recover the investment to the extent feasible.

There are various ways to proceed that will depend on the legal form of the enterprise. In addition to the sale of assets, other option are as follows :

(i) Break up into several legal entities.

(ii) The SOE is transferred to a holding company which acquires the shares of subsidiary companies as well as their assets and liabilities.

(iii) Separation of some activities, the Government retaining others (e.g., non-commercial activities). Such operation often amounts to the simple sale of the assets.

(iv) Productive facilities are not sold as a whole but in single or groups of units.

There are some problems that arise for settling the issues relating to jobs. In case the purchaser continues the operation, an agreement could be made to retain as many employees as possible. Here again pricing will be a sensitive issue that needs careful handling.

5. Reorganization into Component Parts :

Under this method of privatization, the public sector unit is divided into several components or separate entities before the sale. A corporation may also be divided into many subsidiaries and a holding company and sold out individually. There may also be a case where such a holding company with a number of its subsidiaries already existing like the National Textile Corporation in India managing 124 textile units through nine subsidiaries and a holding company. Also British Rail gradually disposed of most of these subsidiaries and used the proceeds in improving the railway services. The other advantage of this system is to reduce monopoly of public enterprise by fragmenting it into many entities and subjecting them all to competition. The Central Electricity Generation has, in 1990, fragmented into 12 regional companies and privatized through public share offer in which the issue was over subscribed 10 times and since the call for the first instalment of £ 1 of the price of £ 2.70 per share, prices are ruling significantly higher in the market.

This type of privatization is done by a capital increase of the SoE. It may also be done by a merger procedure. In such cases the SoE is transformed

into mixed economy. This new share issues of the SoE may be made through private subscription or public offer of subscription. In either case the normal procedures for corporate capital increases and new share issue subscription payment apply. In many cases different classes of share are issued according to the objectives of the parties involved. For example, the offering of preference shares wil attract more private investment.

6. Management/Employee Buyout :

It is a notable method of privatization tried in a few countries for a handful of enterprises. It essentially involves either the management or employees or both acquiring controlling shares of the Public Sector Unit set for privatization. It may also take the shape of workers' cooperative in which there is higher degree of membership participation than management/employee buyout where the employees are simply shareholders. The advantages of this system, as explained by Blackstone and Franks,[25] are that the financiers provide bulk of the funds while they take disproportionately smaller share of equity. On the other hand, the buyers take large shares of the equity but have small role in funding. The equity to debt ratio may go as high as five times (1:5) the amount of

share capital in the company, which is normally not permissible under any other system of borrowing. In such cases it is naturally important that the projected cash flow is sufficient to allow for payment of large sums of interest and capital repayment without placing the viability of the business in jeopardy.

A case of privatization under this system is the National Freight Company Limited, in U.K.[26] This was a large company with about 30,000 employees, that was performing too weakly for public offering. It was acquired by Management/Employee consortium created for the purpose for £ 53.5 million of which £ 51.0 million was obtained as medium term loan against the assets of the subsidiaries of the group and the rest was raised from the equity capital. Some Government debt was written off. The average investment made by the workers was about £ 700 and the company has since reportedly been performing well with increasing profit and therefore smart share values. Similarly, several shipyards, formerly under the control of the British shipyards Corporation, were privatized either through management/employee buy-out or management buyout in 1985. British Steel Corporation sold its subsidiary victualic Company through management/employee buy-out

in 1983 and Leyland Bus and Uniport were bought out by the management from British Leyland.

There is more experience with employee buyouts outside the privatization sphere, the experience of which is, however, directly applicable to acquisition of SoEs.[27] Vuylsteke has explained the procedure to follow in which a holding company is created through an equity issue subscribed largely by management and employees, then acquires the State Sector unit to be privatized, using the equity funds and borrowing with the security of the assets of the company. Where substantial borrowing is involved it is called leveraged management/employee buyout (LMBO).

Chile[28] has recently ventured into 100 per cent workers buy-out of a large computer firm ECOM at a price of about $ 1.5 million equivalent, of which 10 per cent was borrowed from CORFO, the state holding Corporation acting as vendor with 10 years maturity and 5 per cent real rate of interest. Reportedly, the losses of the order of $ 1.5 million was turned into a profit within six months time and the company has since been progressively improving its results.

Management and Employees bought out 50 per cent of the holdings of the Institute Development

Industrial (IDI),[29] a large venture of capital firm in France primarily owned by the State. The remaining 50 per cent was bought by a group of 6 other investors who provided the financial guarantees in exchange.

Employees Stock Ownership Plans (ESoP):[30]

Employees stock ownership plans is used as a financing techniques for acquisition of shares by employees. This method helps in fostering the employees participation and may also be used as a leveraged employee buy-out. Bank borrowings are made by ESoP fund and servicing is done by the surpluses generated. The employees get the benefits.

Employees' acquisition of units appears to be a potentially viable way of privatization in which persons will have their stake and hence willingness to do their best. However, the Government also needs to extend incentives to both the employees and financiers. ESoPs have upto now been a peculiarly American initiative because of the tax advantages afforded by U.S. legislation. Among others, these include:

(i) An annual contribution paid by the employer to each employee's ESoP amount upto 25 per cent

of pay. This may be deducted against corporate income tax.

(ii) The tax relief is provided to the financiers from the income received from the loan extended to enterprises undergoing privatization.

(iii) 50 per cent of the proceeds realized from the sale of the firms' stocks to an ESoP are excluded from estate.

This method will perhaps answer to the problem of unemployment where liquidation is the only alternative. It should, however, be backed by a strong and competent management and committed work force.

Various examples of this are to be found in recent British Privatization, the best known of which is the National Freight Company. A management and labour group bought the company with a combination of a loan and employee equity subscription purchased by 80 per cent of the employees. They were rewarded with a substantial increase in share value in a very short period. Other examples include a water supply company in the Cote d'IVoire that was taken over in a buy-out to avoid liquidation and a number of buy-outs with

full or partial workers participation in Chile. A problem of such labour/management buy-outs is that if the firm fails to generate profits because of heavy initial debt services costs, workers/shareholders may sell their stock at low rates to investors to avoid losses. Control of the firm could then pass to a few individuals who might profit handsomely when and if the firm can be turned around.[31]

Implementation of programme will have the problem of preparing and presenting a strong cash flow as most of the units under liquidation will face cash flow problems. Investment will be high and salary and wages may need a freeze.

7. <u>Lease and Management Contract</u> :

Both lease and management contract are the forms of privatization in which the private sector management, technology and/or skills are provided to an SoE. The State either leases owned assets for a period at a compensation agreed by both the parties or the Government gives the management contract to a private enterprise to run the operations of certain facilities for a specific period for which an agreed fee is paid by the Government. There does not exist the divestiture of State assets because there is no

transfer of ownership. These increase the efficiency of the firm and the effectiveness of State's assets.

Lease : Under this system the ownership remains with the Government while the leasee assumes full responsibility for operations and maintenance of its facilities for a specific period under agreed terms and conditions. Under this system, fees are payable to government through a process of negotiation. The leasee is also responsible for up keep of the plants and machinery and hands them back to the State sector in a reasonably good condition after the expiry of the lease terms. Under this system, also the leasee is responsible for hiring personnel. The leasee may hire existing personnel and integrate them into its own work force, but in doing so he would exercise complete freedom of choice. When the operations are resulting in a loss, and the leasee fails to use the facilities fully, the State Sector Unit is not responsible for such losses.

Management Contract :

Under this system, the owner pays for the management skills provided while the manager retains the management and operational control. Different

types of contractual arrangements will be discussed at a subsequent stage.

The management contractor[32] (normally a company in the same line of business as the enterprise) assumes responsibility under a contract to manage the enterprise for compensation. Whereas a leasee pays the State for the use of assets or facilities, a management contractor is paid by the State for its management or other skills. While the contractor might be given extensive management powers and operational control, it has no financial exposure and receives its fee regardless of the profitability of the enterprise. In this, ownership is retained, a defined degree of control is maintained, and a high level of management and other skills is injected into the enterprise, enhancing its overall efficiency and profitability.

In the words of Vickridge and Jobling,[33] many infrastructure projects in developing countries fall into premature disrepair mainly on account of inadequate maintenance or improper operation reducing thereby the operating life of the capital assets created. This may be due to selection of inappropriate technology, lack of efficient management structure or non-availability of technical manpower as also because

of inadequate funding of the operation and maintenance programme that is a common feature in developing countries.

Duration of the Contract :

The duration of the contract only depends upon the interest of involvement of the2 contractor. Normally, a contractor duration is 2 to 5 years for operation and maintenance of newly constructed facilities such as sewage, water treatment, plants treatment, etc. But this duration may go upto 20 years when the contractor is interested to continue his contract. Again this duration may be further extended upto 30 years and beyond in cases where the contractor is required to make investment as well.

(i) Sale of Shares or Partial Privatization : In this system, the government retains a portion of the ownership of the enterprise. Joint ownership covers cases where the ownership of the share capital is on a 50:50 per cent basis.

(ii) Selective Privatization : An agency responsible for certain services or interest may sell or lease a part of its services while retaining the remaining services under public ownership, control and management.

(iii) Management Privatization : The management expertise and know-how of the private sector is invited through a management agreement.

(iv) Contract Privatization : There is private sector involvement in the provision of certain services or activities, but there is no change in the organizational set up of the government agency responsible for the service.

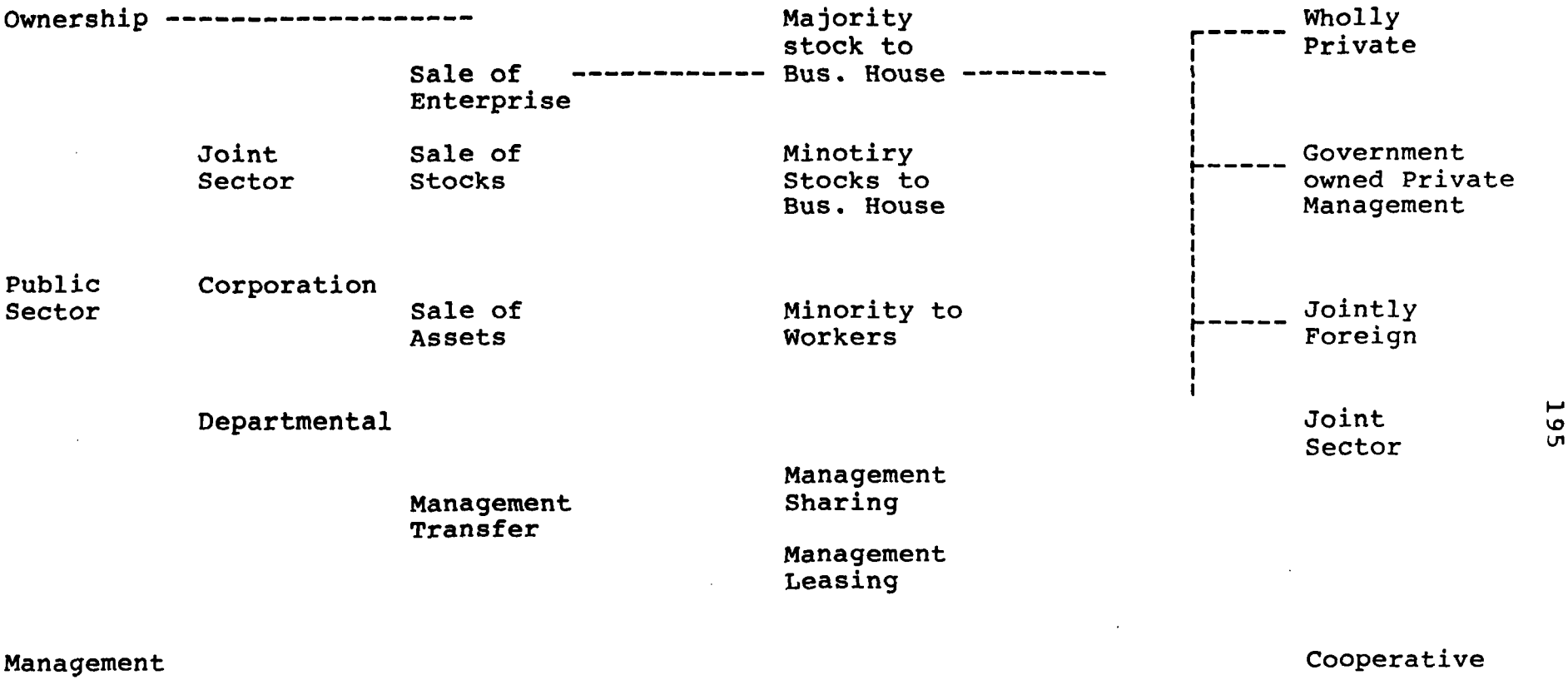
(v) Leasing Privatization : For financial or other reasons, leasing should be considered by the parties involved but the responsible agency will have to evaluate the cost and benefits of leasing and to indicate whether it will be permanent feature or only a phase in its privatization plan. Monhof has summarised Hybrid Enterprise Models and their route to privatization in the following chart No. 4.3.

NEED FOR PRIVATIZATION :

The New Industrial Policy Statement of July 24, 1991 has stated[35], that PEs have shown a very low rate of return on capital invested. This has inhibited their ability to regenerate themselves in terms of new investment as well as in technology. The result is that many of the PEs have become a burden rather than

CHART NO. 4.3

HYBRID ENTERPRISES AND ROUTE TO PRIVATIZATION



SOURCE : Dr. Mohnot S.R., "Privatization Options & Challenges" First Edition, October 1991, New Delhi, p. 344.

being an asset to the Government.

In Programme for Structural Reforms[36] submitted to the International Monetary Fund (IMF) on November 11, 1991 to secure its financial assistance for the ongoing reforms process stated that India's severely constrained budgetary circumstances create both the need and opportunity for rationalising the scope of public sector activity and for placing greater reliance on the private sector for resource mobilization and investment. Public enterprises have absorbed large amounts of budgetary support for their expansion or operations, but in many cases they have failed to generate adequate returns on the investment of public money and contributed significantly to the public sector saving gap and fiscal deficit.

The most apparent reason for the failure of PEs are low rate of return on investment, declining contribution to national saving, poor capacity utilization leading to excessive delays and wastage of scarce resources. The biggest reason for the failure of PEs is that the managers work under a work culture which applies to the bureaucracy of the government.[37] It is because of these reasons that all loss-making Central and State PSUs will have to be privatized as the accumulated losses, in the ultimate analysis, are paid out of the general revenues of the State

Exchequer.

Objectives of Privatization :

The privatization is an important device in the hands of policy makers to reform the public sector undertakings (PSUs). Some of the important objectives of privatization may be:[38]

(a) Fiscal objectives (reducing revenue deficits)

(b) Economic objectives (efficiency through competition).

(c) Socio-political objectives (emphasizing consumer in preference to workers).

(d) Administrative objectives (reducing cost of bureaucracy).

(e) Ideological objectives (strengthening and deepening individualism, property rights, etc.).

However, there may be occasions when the objectives contradict each other. In such cases, relative priorities have to be identified. Whatever be the objective, an implicit assumption in the drive towards privatization is that market forces or private ownership will contribute to great efficiency. In the words of Cook and Minoque,[39] privatization would be

relevant in developing countries in many ways, namely, it will:

(a) Improve efficiency

(b) Reduce budget deficits

(c) Reduce losses

(d) Help reducing/elimination of uneconomic capacities.

(e) Help the Government reduce subsidisation of losses.

(f) Reduce the claim upon Government for continuous investment.

(g) Improve the Public services.

(h) Help in Government's resources earnings etc.

However, privatization in developing countries like India, may not simply be a blue print of the developed countries. It can not be blindly duplicated. Before approaching the move one may need to find answer to the querries as Heald put them:[40]

- Why do the public sector enterprises exist?
- What are they delivering?
- How can they be improved?
- Should they be abolished?

Finding answers to such querries may lead to an appropriate solution rather than following any blue print. In fact, the rationale of privatization may be

explained from the above. Moreover, no generalized method exists for the privatization of any enterprise. A case to case study will be essential to understand the realities of situations and to work out an appropriate method.

Views on Privatization :

The Policy-makers [41] in India have pronounced time and again that the loss-making PEs do not have any place in the economy. Even the World Bank has suggested for privatization of PEs in India.[42] The Arjun Sengupta Committee,[43] set up to review the Government policy for PEs, divided the entire spectrum of PEs into core and non-core sectors. The non-core sector enterprises were further sub-divided into financially viable and non-viable enterprises. The core sector included coal and lignite, crude oil, petroleum and natural gas, power, primary steel production, primary production of aluminium, copper, lead, fine-nickle, fertilizers and primary production of petro-chemical intermediaries. The Committee suggested closure of non-viable PEs in non-core sector. It recommended special studies of such enterprises in the core sector to put them back on rails. If we superimpose the Arjun Sengupta Committee

criteria of five year consecutive cash loss and bring in non-priority sector, according to an estimate, 23 PEs get selected for priority privatization. A meeting of the panel of economists convened by the Planning Commission has suggested selling shares of PEs to the public to raise resources. PEs should not be allowed to become burden on Government finance. The PEs which cannot be viable may be closed down or sold off or restarted as private enterprise.[44]

Privatization Model :

The privatization modalities will not only depend upon the objectives of privatization but also on the nature of PEs to be privatized, comparative gain after conversion and the prevailing political and economic environment of the country at that time. For example, if the objective is wide distribution of ownership, the method employed could be a public offering through the facilities of a stock exchange or possibly off the exchange at a concessional price. If the objective of privatization is to support and encourage an incipient business class, the Government may not place any limitation on the number of shares bought by any individual or group, and may sell shares

through adhoc negotiations with a small group of prospective buyers.

Different modalities of privatization given by experts has a preference for green field privatization and cold privatization which came out through policy changes and procedured modification. These terms coined by Y. Venugopal Reddy[45] are as follows :

Green Privatization : is a term coined to denote encouragement to private sector in areas hitherto reserved for PEs. It is also known 'Incremental Privatization'.[46] It lies under two given considerations.

(i) the need to tap private sources for funding large projects especially if the private sector could also mobilize foreign resources and

(ii) technology upgradation through foreign collaboration.

The new economic policies of liberalization have provided considerable scope for green field privatization in as much as they have promoted private industrialists to venture into areas, earlier reserved for the public sector, such as power, aviation,

hydrocarbon development, telecommunication equipment and more recently, even specialized telecommunication services (cellular phones). Substantial new green field investment can be observed in the Tata ¼ IBM computer Project, Kellogg breakfast cereal, GE engineering and General Motors.[47]

Private investment was first used in case of construction and maintenance of highways in the State of Andhra Pradesh. General Information for Roads and Highway was first published by the Indian Government in July, 1985. It described the consideration of private participation in constructing roads, tunnels and bridges. There has been some activity in private sector development in the state of Andhra Pradesh and Maharashtra. Other cases of greenfield privatization are setting up of petroleum refineries in the joint sector with equity participation, one at Mangalore (a Birla-Hindustan Petroleum Project) and the other at Karnal. Recently, Hindustan Max GB (HMGB) is a 50:50 joint venture of the state owned Hindustan Antibiotics Ltd. (HAL) and Max GB. Tata Oil Corporation (TOC) has signed a Memorandom of understanding (MoU) with Tata Chemicals, each of them having 26 per cent equity participation and the remaining will be issued for public participation.

Cold Privatization :

In this type of privatization, steps are taken to distance the PE from the Government. The distancing of PE management from government is being attempted in the form of a MoU to be signed by each PE and the government.

Memorandum of Understanding (MoU) :

It is to improve the performance of the public enterprises (PEs) and is an alternative option to the policy of privatization. The Government of India has introduced the concept of performance contracts which we call the Memorandum of Understanding[48]. This concept was, for the first time, introduced in South Korea, France and other countries. In India this concept was introduced in 1988-89 on the recommendations of the committee to Review the policy for PEs (chaired by Arjun Sengupta) and was notified in 1989-90 under this device. The relationship between the Government and PEs provides greater autonomy to the management to improve operational results.

The emphasis has been at achieving the negotiated and agreed targets and objectives rather than interfering in their day to day operation. The

MoUs spell out the mission, objectives and annual targets of an enterprise. Each target is then assigned a weight corresponding to its priority and target achievement based upon a 5-point scale ranging from excellent to poor. The MoU also imposes certain obligations on both the management and the Government for progressive improvement of performance. A high level committee has been constituted for evaluating such MoUs as also to review the performance of the PEs. Therefore, the MoU is being used as an instrument for bringing in greater autonomy to the Management alongwith accountability in the PEs[49].

During 1990-91, 23 PEs signed MoUs with their administrative ministries. Their performance evaluation categorized 14 of them as excellent, eight as very good and one as poor. In 1991-92, 71 enterprises (with 35 subsidiaries) signed MoUs, in 1992-93, 120 enterprises (with 44 subsidiaries) have been identified for this purpose.[50] During 1993-94 101 PSEs signed MoUs as against 98 in the preceding year. Based on their audited accounts, performance of 100 PSEs was evaluated out of which 46 were rated excellent (46 per cent), 29 as very good (29 per cent) 12 as good and 10 fair.[51] During 1994-95, 99 PEs signed MoUs; for 1994-95, self evaluations have been

rated as excellent; 26 very good and only 2 have been rated as poor. Evaluation for 16 is pending. It is awaited for 4. In 1995-96, 104 PSEs signed MoUs, 51 of them have been rated as excellent, 31 as very good and a meagre 2 as poor. Evaluation for 1 unit is still pending.[52] Names of enterprises signing MoUs for the year 1996-97 and MoU scores of these enterprises for 1995-96 appear in Annexures I and II respectively appended at the end of this dissertation.

Although the MoU system has an important role to play in impvoring performance in public sector enterprises, one should realize that the focus of MoU is only on the operational autonomy and accountability. This should not eventually turn out to be only a ritual for setting soft targets in achieving these easily at the end of the year. One is not sure as to whether this will eventually serve the purpose of making the public sector efficient consistent with the objectives set out before them.[53]

Having discussed the Arjun Sengupta Committee's recommendations with respect to improving the operational efficiency of the PSUs by giving their management more freedom through MoUs which evaluated these undertakings on a five-point scale ranging from 'excellent' to the 'poor', we now turn to evaluate

India's privatization performance with reference to a number of other countries.

Before doing so it would be quite relevant here to quote from the Industrial Policy Amendment Act of July 24, 1991 which clearly stated that 'in order to raise resources and encourage wider public participation, a part of the government's shareholdings in the public sector would be offered to the mutual funds, financial institutions, the general public and the workers.

In strict sense of the term, privatization is specifically defined as the government initiated transfer of assets, operations, rights and activities from the public to the private sector through a variety of means. On the other hand, the divestiture of small equity stakes to private sector investors or the sale of shares to mutual funds or other institutions controlled by the government without any significant change in the level of government control or managerial freedom does not constitute privatization. But the process does include contracting out to the private sector those services which had, historically, been performed by the public sector and the provision and financing of new infrastructure projects.

To dispassionately assess India's performance on global privatization scale Business Today teamed up in January 1996 with Coopers & Lybrands, one of the biggest consultancy companies of the world, to tap the latter's fund of experience in working with various governments on privatization programmes. The simple objective was to compare India's progress with similar or outstanding international examples in order to scientifically evaluate the Congress Government's role to privatise the public sector. The five sectors - Power, Telecom, Banking, Airlines and Oil and Gas-selected for the evaluation are, in fact, the same areas wherein Narasimha Rao had actually initiated the change process.

To facilitate sector-wise comparisons an achievement rating was derived from the four criteria, evaluated on a five-point scale where 1 stood for completely regulated and 5 for completely competitive. The four critical factors considered were : (i) Market Structure : Are there barriers to entry? Are prices State-controlled? (ii) Ownership: what is the level of private ownership in the public sector? (iii) Management : What is the level of freedom the managers of the PSU enjoy? (iv) Finance : What is the level of freedom the PSU has in terms of raising funds?

Each sector's performance was compared against publicity declared objective of the government and it was possible to assign a rating to the present status of privatization in each of the five sectors. Then, India's overall performance in relation to privatization was compared against a mix of six countries- Britain, Mexico and Thailand having a long track record to privatization and Portugal, Argentina and Indonesia which, like India, had turned to privatization only recently. The comparison was made on a five-point scale (on a number of key privatization parameters), such as, the government's defined objectives, the methods employed, the political will, the timescales involved, the objectives attained and so forth.

Considering all the foregoing factors, India's privatization performance is quite dismal. Alongwith political unwillingness, execution of privatisation programme has also been quite weak. India's rating in political will is the lowest (1) among all the countries compared while that of the U.K. is the highest (5) followed by Argentina, Portugal, Indonesia, Mexico and Thailand. It was the iron will of Mrs. Margret Thatcher that she undertook one of the most radical public sector reform programmes in the world, privatising a majority of that country's nationalised

industries and utilities with total proceeds now exceeding $ 95 billion.

As for the degree of preparedness, Argentina (Rating 4-5) based its process of privatisation on the State Reforms Law of 1989 and collected $ 22 billion through the process. Similarly, Portugal (Rating 3-4) enacted a general legal framework which spelt out exactly how its nationalised undertakings could be returned to the private sector. Mexico (Rating 3) started its privatisation of parastatals through liquidation, mergers and transfers as well as the sale of companies and trusts in 1982 and out of 1,100 SOEs in 1983, the government controlled only 258 enterprises in 1993. India (Rating 1), has not, despite its initiation of reforms programme five years ago, passed any specific law in relation to privatisation and is still knee-jerking. Here, the path to privatisation remains paved with indifferent intentions. In fact, Indian privatisation was an economic necessity but a political impossibility.

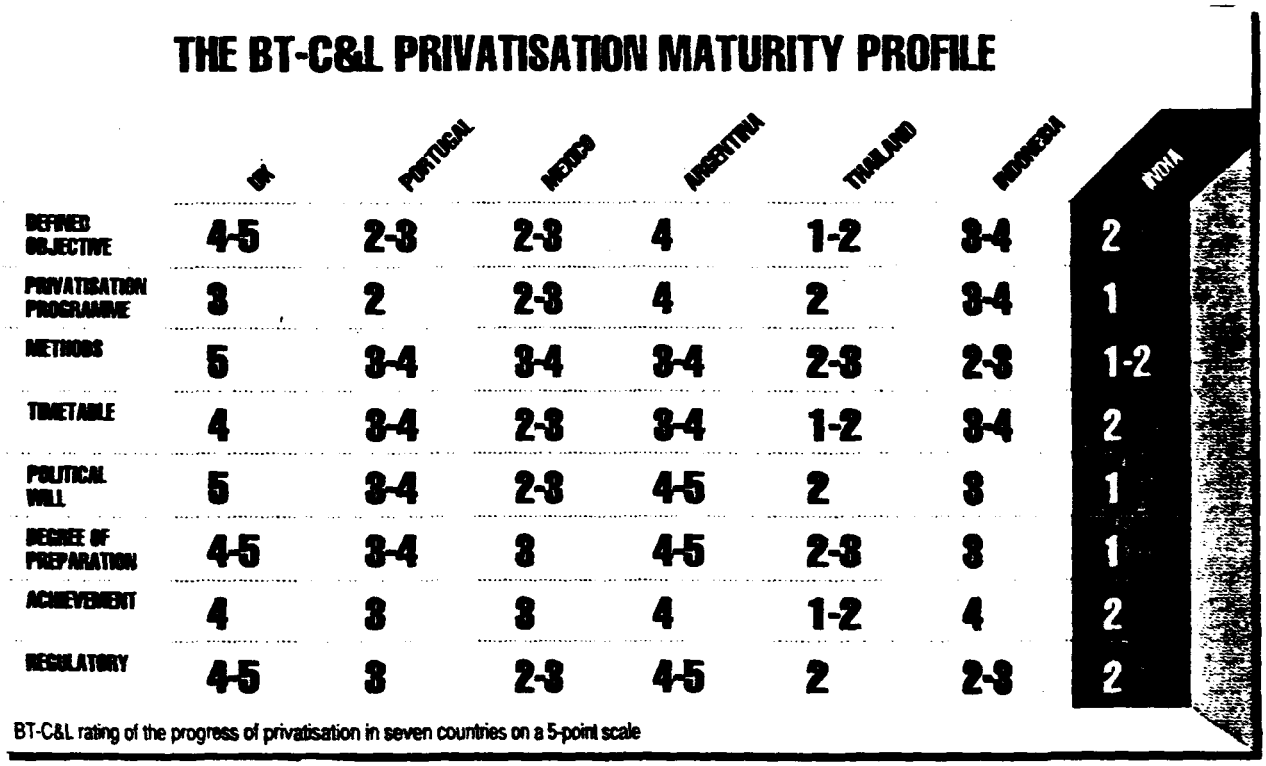
In terms of timescales involved, India's (rating 1) position was slightly better than Thailand. It was proceeded by the U.K. (Rating 4), Portugal, Argentina, Indonesia (Rating 3-4), followed by Mexico (Rating 2-3). Regarding the methods employed for

achieving privatisation objective, U.K. (Rating 5), was on the top followed by Portugal, Mexico, Argentina (Rating 3-4) and Thailand and Indonesia (Rating 2-3). Indonesia's score in terms of its competence in implementing privatisation is praiseworthy, 3-4, which is higher than Britain's 3 or India's. Chart No. 4.4 gives all these details.

The foregoing privatization paradigms indicate towards the fact that what hase been happening in India over the last five years can only be described as creeping privatization, with pieces of state monopoly being liberalised from time to time. During the four rounds of disinvestment that has taken place since 1992, it has auctioned off only 0.65 per cent of Government's investments in the public sector and has realised a meagre amount of $ 3 billion only, though C. Rangarajan Committee appointed by the Government had recommended, as early as in 1992, that the Government's share in the PSUs be brought down to les than 51 per cent. It means that the government never seems to have made up its mind on the subject.

As a consequence of the aforementioned indifference, Indian PSUs are in no better position today than they were five years ago. They have not so far realised the importance of public ownership, nor have they bothered about cost reduction through

CHART NO. 4.4



SOURCE: Business Today, Lancer International, New Delhi, January 22-February 6, 1996, p. 71.

increasing productivity. Their monopoly culture continues and they have hardly learned anything from global experience with particular reference to competition and wide dispersal of ownership of public assets around the world.

As a matter of fact such reform programmes require strong political will and preparedness and specific timescales on the part of the government of a country. Unfortunately, in India, these things are lacking. But, half hearted measure will not do. Thailand, for example, which undertook privatization task long ago has failed only because of lukewarm measures adopted by it. In India, whatever has been done so far is not, in fact, privatization as it has not brought about any significant change either in ownership pattern or management freedoms which are necessary if privatisation programme is to succeed in the country.

Disinvestment of PSE Shares :

It is sale of a part of equity holdings by the government in PSUs to private investors. It was a major strategy by the government to finance the fiscal deficit. The economic motivation was to improve

efficiency of PSUs. Government expected that a small investment by the private sector will make the managers disciplined and motivated. Its results came out in 1992-93, the percentage of net profit on the capital employed in PSUs was one third of the private sector. Following five are the distinct methods for the disinvestment of PSU's shares.

(i) Market value method

(ii) Earning capacity value method

(iii) Fair value method

(iv) Net Tangible Assets method

(v) Face value plus investment method

Features of Disinvestment in the year 1991-97 :

There have been ten rounds of disinvestment during the period 1991-97.

Disinvestment in 1991-92 : Disinvestment was initially started in the year 1991-92 in two rounds. Equity varying between 5 and 20 per cent in selected public enterprises was disinvested in two phases in December 1991 and February 1992. The 31 companies whose shares were selected for disinvestment were a mix of 8 very good, 12 good and 11 not so good companies with net asset Rs. 20-50 and less than Rs. 20 respectively. The

shares were offered in bundles consisting of 9 PSE as randomly structured portfolios each with a notional reserve price. The reserve price was an average of NAV and profit earning capacity value (PECV). The shares were offered to selected financial institutions and mutual funds. During the first phase of disinvestment in December 1991, bids were received from nine parties totalling Rs. 427 crores; 51.62 crore shares constituting 4.7 per cent of the equity were sold. The average realisation per share (with a face value of Rs. 10) was Rs. 27.65. In the second phase in February 1992 bids were received from 19 parties for Rs. 1611 crore; 35.59 crore shares constituting 3.3 per cent of the equity were sold. The average realisation per share was Rs.45.25. The total shares disinvested during 1991-92 thus comprised 8 per cent of the total Government share holding in the 31 PSEs and the total amount realized was Rs. 3038 crores.[54] Unit Trust of India (UTI) alone was alloted shares worth Rs. 2.017 crores (around 70 per cent), followed by General Insurance Corporation (GIC) (7 per cent), life Insurance Corporation (LIC) (6 per cent), can bank MF (4.3 per cent) and State Bank of India (SBI) MF (3.5 per cent).

In a research paper submitted at a seminar, Mr. Shankar Mishra and Nandgopal have stated that the Government could have raised more than Rs. 356 crore from PSU disinvestment during 1991-92, instead, it could raise less than 50 per cent of this amount from the sale of shares of 31 PSUs.[55] In fact, PSUs shares were undervalued to alarge extent.

The Public Account Committee (PAC) submitted its 75th report on 29th April 1994 and identified persons the responsible for undervaluation of PSE shares in the 1991/92 round of disinvestment. The PAC has found the disinvestment process deficient on the following counts :

(i) Haste in accepting uncompetitive bids and incorrect method of bundling shares.
(ii) Method of fixing reserve prices and
(iii) Sale of shares before their listing

Clearly all the above mentioned factors have contributed to the undervaluation of shares and short-fall in revenue generated.

<u>Disinvestment in the Year 1991-92</u> : During this financial year disinvestment was done in three rounds '(i.e. October 1992, December 1992 and March 1993).

It had the unbundled shares and the bidding was open to the public and even to other institutions; Enterprises-wise sale of shares was effected so as to get optimum benefits. Reference floor price, which was fixed from the average recommended price of Merchants Bankers (i.e., ICICI, IDBI and SBI Capital Market Ltd.) was not made public.

In October 1992, the bids eligible for acceptance amounted to a total sale value of Rs.681.95 crores for 12.87 crores share in the 8 companies. In October 1992, the bids for 12 PSUs were sold for Rs.1183.3 crores and in March 1993, bids for 15 PSUs were sold for Rs. 46.73 crores.

The Government also decided, in principle, to disinvest shares in favour of employees during 1992-93.

For tranche of October 1992 disinvestment was opened to all and offer of minimum bid was Rs. 25 crore where small investors were automatically kept out of scene. In second round minimum bid was reduced to Rs.10 lakhs and in tird round (March 1993) it was only Rs.1 lakh.

The total loss of revenue in three phases of disinvestments in 1992-93 was estimated to be Rs.804.8

crore. The extent of loss in second phase of disinvestment was only Rs. 485 crore.

1993-94 :

Rangarajan Committee was formed on the disinvestment of shares in PSEs, the committee submitted its report in April 1993. It recommended that :

(1) Industries which were reserved for public sector should observe a 49 per cent disinvestment of equity whereas 74 per cent should be considered for other cases.

(2) An action plan should be brought in rather than the year-wise target.

(3) A scheme should be developed so that workers and employees of PSUs must get the benefit of offerings.

(4) The choice of method of valuation of shares of a PSE needs to take into account the special circumstances affecting PSE's operation, such as, the past focus on social responsibilities rather than pure commercial considerations.

(5) Valuation of the shares of PSEs should be considered according to the special conditions of past which affected their operations.

(6) Ten per cent of the proceeds of disinvestment may be set apart by the Government for lending to the PSEs on Concessional terms to meet their expansion and rationalisation needs.

(7) A committee on PEs disinvestments may be formed to overlook the action plan for restructuring, reformation and disinvestment and also the monitoring and evaluation of the progress alone.

The Government had estimated to raise of Rs.2,500 crores in this disinvestment. As the plan was very much delayed in 1993/94 round bidding was held only in March 1994. The offer was opened from 17 March to 31 March. The bids were opened in April 1994 and the Government raised an amount of Rs. 2,292 crores. It has been accounted in the capital receipts of the year 1994/95. Foreign investors took the bid for shares in March 1994 round. Equity raised by the Indian companies abroad in 1993-94 amounted to US $ 2.5 billion. Government's plan of strategic alliance was observed in case of Maruti Udyog Limited, an automobile joint venture with Suzuki Motors Corporation of Japan. The company was set up in 1980s with Suzuki having an stake of 40 per cent and remaining 60 per cent with the Government of India. As

the policy was to encourage the foreign investors by increasing their share holdings, Suzuki purchased the fresh equity thus increasing their stakes to 50% and getting a control over Management. This round was noted as more successful round and the revenue lost was estimated very small, i.e., about Rs. 91 crores by Indira Gandhi Institute of Development and Research (IGIDR) (Mid-Year review of the economy 1994-95).

1994-95 :

Two rounds of disinvestments in PSUs were observed during the year 1994-95. (1st in october, 1994 and second in January 1995). Both of these were having very poor performance. The PSUs whose shares were offered, were oil majors like ONGC and IOC, in Telecom, were the MTNL and VSNL and other profit making enterprises as Steel Authority of India Limited. Except for oil majors other PSUs did not show any positive response.

During the first round, equity of six companies was sold and government raised Rs. 2,231 crores. In second round, disinvestment of equity in five PSUs was sold and government received Rs. 338 crores. Thus, a total of Rs. 2,629 crores showed a wide

margin as estimated amount for this year disinvestment was Rs. 4,000 crores.

In both these rounds government had fixed a reserved price for bids, below which no bids were accepted. According to above reserved price government did not accept any bids for MTNL in the first round and VSNL in second round. Due to the failure of MTNL first time, the government offered a sale of shares of MTNL at a fixed price of Rs. 190 per share. This issue was to take place in February 1995, but actually took place in the year 1995-96. Minimum bid in 1994-95 was brought down by the Government as Rs. 25,000.

1995-96 :

Further disinvestment in public sector was announced by Union Finance Minister, Manmohan Singh in the year 1995-96 to raise an estimated amount of Rs.7,000 crores. It was the biggest disinvestment of PSUs till now. During the offer of January 1995 Government collected Rs. 288.66 crores by selling 458.30 lakh shares of the five PSUs. The Government does not have any proposal for more disinvestment which results in Government's holding of less than 51 per cent. On May 9, 1995, the Parliamentary Standing Committee's report stated that according to IGIDR

estimates SAIL's disinvestment loss is nearly Rs. 1030 crore.

1996-97 :

In this year Rs. 5,000 crore of disinvestment was set in target upto the 31st March. Finance Minister, Mr. P. Chidambaram said that the problem lies in the 107 PSUs making a loss of Rs. 5,000 crore as against 130 profit making units. He said we need greater investment in social infrastructure and basic industries in order to get another Rs. 5,000 crore.

The industries Minister, Murasoli Maran has indicated that the budgeted Rs. 5,000 crore public sector disinvestment programme could be a non-starter during the current financial year due to adverse market conditions. The number of PSUs since 1991 until the end of September 1996 wherein the Government has approved disinvestment of its shares come to forty. Year-wise and PSU-wise details of disinvestment since 1991-92 is given in Table 4.1

It is expected that upto 1999, a flow of another 10 billion $ by way of disinvestment of Central Government share holdings of the PSU will be achieved.

TABLE NO. 4.1

YEAR-WISE/PSU-wise DETAILS OF SHARES DISINVESTED SINCE 1991-92

Name of the PSE	% of Central Govt. Holding					
	1.7.91	31.3.92	31.3.93	31.3.94	31.3.95	31.3.96
Andrew Yule	71.30	62.80	62.80	62.80	62.80	62.80
Bharat Earthmovers Ltd.	100.00	80.00	80.00	80.08	60.08	60.08
Bharat Electronics Ltd.	100.00	80.00	80.00	80.00	75.86	75.86
Bharat Heavy Electronics Ltd.	100.00	80.00	79.54	79.46	67.72	67.72
Bharat Petroleum Corpn. Ltd.	100.00	80.00	70.00	69.62	66.20	66.20
Bongaigaon Refineries & Petro Ltd.	100.00	80.00	74.60	74.59	74.47	74.47
CMC Ltd.	100.00	83.31	83.31	83.31	83.31	83.31
Cochin refineries Ltd.	61.16	55.04	55.04	55.04	55.04	55.04
Dredging Corpn. Ltd.	100.00	98.56	98.56	98.56	98.56	98.56
Fert.& Chem.(Travancore) Ltd.	98.69	97.46	97.35	97.35	97.35	97.35
HMT Ltd.	100.00	95.14	90.32	90.32	90.32	90.32
Hindustan Cables Ltd.	100.00	96.36	97.97	97.97	97.97	95.97
Hindustan Copper Ltd.	100.00	100.00	98.88	98.88	98.88	98.88
Hindustan Organic Chemicals Ltd.	100.00	80.00	80.00	80.00	56.90	56.90*
Hindustan Petroleum Corpn. Ltd.	100.00	80.00	70.00	69.72	60.25	51.00*
Hindustan Photofilms Mfg. Co. Ltd.	100.00	87.47	87.47	87.47	87.47	87.47
Hindustan Zinc Ltd.	100.00	80.04	75.93	75.93	75.92	75.07
Indian Petrochemicals Corpn. Ltd.	100.00	80.00	80.97	62.40	62.40	61.43
Indian Railway Const. Co. Ltd.	100.00	99.74	99.74	99.74	99.74	99.74
Indian Telephone Industries Ltd.	99.65	79.72	77.79	77.67	77.02	77.02
Madras Refineries Ltd.	84.62	67.70	67.70	51.80	51.80	51.80
Mahanagar Telephone Nigam Ltd.	100.00	80.00	80.00	80.00	67.18	65.73#
Minerals & Metals Trading Corpn.	100.00	99.33	99.33	99.33	99.33	99.33
National Aluminium Co. Ltd.	100.00	97.28	87.20	87.19	87.15	87.15
National Fertilizers Ltd.	100.00	97.72	97.66	97.66	97.65	97.65
National Mineral Dev. Corpn. Ltd.	100.00	100.00	98.38	98.38	98.38	98.38
Neyveli Lignite Corporation	100.00	95.42	93.86	94.19	94.19	93.29
Rashtriya Chemicals & Fertilizers	100.00	94.36	92.50	92.50	92.50	92.50
Shipping Corpn.of India	100.00	81.49	81.49	81.49	80.12	80.12
State Trading Corpn.	100.00	92.02	91.02	91.02	91.02	91.02
Steel Authority of India Ltd.	100.00	95.01	89.49	89.45	89.04	88.93#
Videsh Sanchar Nigam Ltd.	100.00	85.00	85.00	85.00	85.00	82.02
Container Corporation of India	100.00	100.00	100.00	100.00	80.00	76.92#
Indian Oil Corporation	99.88	99.88	99.88	99.88	96.08	91.04
Oil & Natural Gas Corporation	100.00	100.00	100.00	100.00	98.00	96.12
Engineers India Ltd.	100.00	100.00	100.00	100.00	94.01	94.01
Gas Authority of India Ltd.	100.00	100.00	100.00	100.00	96.63	96.63
Indian Tourism & Dev. Corpn.	100.00	100.00	100.00	100.00	90.00	89.97
Kudremukh Iron & Ore Company Ltd.	100.00	100.00	100.00	100.00	99.03	99.03
Industrial Dev.Bank of India	100.00	100.00	100.00	100.00	100.00	72.14

Figures are provisional, as the shares sold in Oct. 1995 are yet to be transferred in favour of successful Bidders.

* These companies had floated public issues. Percentage of Govt. holding after proposed public issue is not known.

EXIT POLICY AND NATIONAL RENEWAL FUND (NRF) :

The Government has been trying to rehabilitate workers affected by the industrial sickness. The Golden Handshake policy or voluntary Retirement Scheme (VRS) has been implemented in a large number of PSUs like Coal India, MAMC, FCI, MMTC, CCI, Heavy Engineering Corporation, Indian Oil Corporation, Calcutta Port Trust etc. Planning Commission in this connection, has observed, "Even here, to minimize the adverse effects of closure of a unit on labour, several options like introduction of compulsory insurance or the creation of a fund to pay retrenchment benefits to employees should be tried." (VIIIth Plan, Vol. 1, p. 88).

Dr. Manmohan Singh, Finance Minister of Narasimha Rao's Government has announced outside the country to close down the unviable PSUs and in India he has ever promised not to retrench the workers. The trade unions were vigorously opposed to the Government's proposals of retrenchment. The midway scheme has been voluntary retirement schemes or golden handshake for which NRF was set up in February 1992 for providing financial benefits. Hence, the exit policy now cannotes VRS and nothing ese. Other schemes of retraining for re-employment hinge in balance.

The main objectives of the NRF area:[56]

(i) to provide assistance to firms to cover the costs of retraining and redeployment of employees arising as a result of modernization and technological upgradation of existing capacities and from industrial restructuring.

(ii) to provide funds for compensation to employees affected by restructuring or closure of industrial units, both in the public and private sector.

(iii) to provide funds for employment generation schemes in the organized and unorganized sectors in order to provide a social safety net for labour. The Department of Industrial Development, which administers NRF, has now taken up the first set of cases relating to the National Textile Corporation Units.

The National Textile Corporation (NTC), a Central Government undertaking which has a portfolio of 120 textile mills taken over by the government at various points of time,* has negotiated a package with labour whereby 70,000 workers will be retrenched over a period of six months. Of these 30,000 workers

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*Out of the 120 mills under NTC, the Government would take up the revival and modernisation of 49 mills only. The other 71 are considered to be too sick to be revived. (Hindustan Times, New Delhi, Aug.20, 1997).

have already been retrenched. The NRF has first been used to implement a VRS for the surplus labour of NTC of whom 27,943 have accepted voluntary retirement as on May 29, 1993.[57]

The result of VRS has been had that young and skilled managers left the organization to join in private sector export-import houses as senior managers. The redundant staff at lower level however, remained in their positions in PSUs. The introduction of the VRS was baseless. It was open to all and resulted in rapid depletion of technical and managerial cadres in PSUs. In other words, mostly cream workers of the organization were taken by private sector, leaving the public sector with employees whose opportunity cost in the market was lower than their present wage level. It is true that the entire NRF was used to finance the VRS only and even then it produced adverse effect on output and efficiency.

Whereas the budgetary allocation for the year 1994-95 has been Rs. 700 crores for NRF, the budgetary allocation for the year 1995-96 was recommended to Rs. 300 crores only. The break up of the budgetary allocation for the year 1995-96 is as under Table No. 4.2

Table No. 4.2

Budgetary Allocation, 1995-96

Sl.No.	Particulars	Amount (Rs. in crores)
1.	VRS in Central PSU	239.68
2.	Workers Counselling retaining etc.	35.32
3.	Un-allocated	25.00

Source : Public Enterprises Survey, 1995-96, vol. 1, Ministry of Industry, Government of India, New Delhi.

Provisional expenditure for the year 1995-96 out of the budgetary allocation have been as under Table No. 4.3

Table No. 4.3

Provisional Expenditure, 1995-96

Sl.No.	Particulars	Amount (Rs. in crores)
1.	Expenditure on VRS	209.58
2.	Expenditure on Workers Counselling, retaining	7.42
	Total	217.00

Source : Public Enterprises Survey, 1995-96, Vol. 1, Ministry of Industry, Government of India, New Delhi.

The Exit Policy should not mean that NRF be exhausted through VRS only; rather its scope should be enlarged to retaining and redeployment of workers. The NRF should be mandatory/compulsory by statutory provisions. The NRF should be utilised properly on selective basis after making a study of each enterprise and identifying surplus workers in different departments.

The Labour Minister, Mr. P.A. Sangma of Narasimha Rao's Government said that till March 1995, over 75,000 workers in 61 PSUs had taken VRS. As the process of restructuring public sector firms gains momentum the NRF will play a larger role in years to come.[58]

Indian Scenario :

In India, it was the late Mrs. Indira Gandhi's Government which had initiated actions regarding the privatization.[59] However, the first clear pronouncement on the public sector outlining the change in policy was made by the Late Prime Minister, Mr. Rajiv Gandhi in his first broadcast to the nation in 1984 wen he said "the public sector has spread into too many areas where it should not be. We will be

developing our public sector to undertake jobs that the private sector cannot do. But we will be opening up more to the private sector so that it can expand and the economy can grow more freely.[60]

RBI made large drawings from the International Monetary Fund (IMF) which amounted to US $ 2.4 billion in July 1990 and January 1991. Even then there was a sharp reduction in the foreign exchange reserve during 1990-91. As of July 1991, their level was at a little over US $ one billion which was barely sufficient to finance imports for a fortnight. As inflation accelerated to almost 14 per cent and foreign exchange reserves dwindled international default by India seemed to be a real possibility. It was in this atmosphere of crisis that a newly elected government launched a programme of economic reforms in June 1991.[61]

Since the introduction of the New Industrial Policy on July 24, 1991, the Government of India have come a long way in initiating a number of measures to implement the liberal industrial and Trade Policy in pursuit of globalizing of the economy. The main features of the actions already initiated can be summarized as follows:[62]

(i) Industrial Licensing : It is a major aspect for reform. It has centered on loosening the barriers to entry for firms to push competitions in the industrial sector. Licensing requirements for industrial investment have been abolished for all industries, except those specified, irrespective of levels of investment. These specified industries will continue to be subjected to compulsory licensing for reasons related to security and strategic concerns, social reasons, problems related to safety and over-riding environmental issues manufacture of products of hazardous nature and articles of elitist consumption.

Licensing was further liberalized on 23rd April 1993 according to Press Note No. 9 (Series, 1991, which was amended from time to time). In the light of the Import Policy which has removed almost all restrictions on the import of capital goods, raw materials and components, and modification of the Liberalized Exchanged Rate Management System introducing unified exchange rate for the 'Rupee' effective from 1st March 1993, it has now been decided to delicense the motor car and the white goods industry. White goods industries cover domestic refrigerators, domestic dish washing machines, Programmable domestic washing machines, microwave ovens and air

conditioners. Modernization of leather industries with a view to promote exports, improve productivity, encourage ancillary industries and generate employment, particularly in rural areas requires injection of substantial investments in the leather industry and therefore, it has been decided to delicense raw-hids and skins, leather and patent leather, excluding chamois leather.[63]

(ii) Locational Policy : The locational policy has also been liberalized. For locations other than cities of more than one million population, there will be no requirement of obtaining industrial approvals from the Central Government except for industries subject to compulsory licensing. In respect of cities with populations greater than 1 million, industries other than those of a non-polluting nature such as electronics, computer software and printing will be located outside 25 kms. of the periphery, except in prior designated industrial areas.

(iii) Monopolies and Restrictive Trade Practices Act (MRTP Act) : The thrust of the Monopolies and Restrictive Trade Practices (MRTP) Act for large companies has shifted to controlling and regulating monopolistic,

restrictive and unfair trade practices rather than making it necessary for undertakings, to obtain prior approvals for expansions, establishment of new undertaking, merger, amalgamation, takeover and appointment of Directors. The limits of assets in respect of MRTP Companies and dominant undertakings in India have been removed. Therefore, there is no barriers to growth. In order to give effect to the above, MRTP (amendment) Act 1991 has been enacted and also the distinction between the PSUs, and private sector companies under this Act has been done away with.

(iv) Policy for Small-Scale Industry Sector : The Government continues to provide protection to the small scale industries (SSIs) through the policy of reservation of items for exclusive manufacture by the SSIs. Total number of 836 such items continues to be reserved for manufacture in the small scale sector. The investment limit of the small scale sector and the ancillary industries has been enhanced from Rs. 35 lakh to Rs. 60 lakh and from Rs. 45 lakh respectively. Industrial licences can also be given to manufacturers of items reserved for exclusive manufacture by the small scale industries with an export obligation of 75 per cent.

(v) Foreign Direct Investment (FDI) :

(a) Automatic Clearance : Under the New Industrial Policy the RBI accords automatic approval for Foreign Equity Investment upto 51 per cent in high priority areas and provides the foreign equity covers for foreign exchange requirements for import of capital goods.

(b) Foreign Equity : In order to have access to international markets, majority of foreign equity holdings upto 51 per cent is also automatically permitted by the RBI for trading companies primarily engaged in export activities.

(c) Expansion of Foreign Equity : The RBI can accord automatic approval to an existing company wishing to raise its foreign equity holding upto 51 per cent as a part of expansion programme provided the expansion is in the high priority areas and additional equity forms part of the finance for expansion programme and the finance is remitted in foreign exchange.

(d) Full Foreign Investment : 100 per cent direct foreign investment is permissible for 100 per cent export oriented units. An automatic approval is given for setting up of 100 per cent export oriented units

subject to prescribed value addition norms and within the limit of imported capital goods.

(e) Non-Resident Indian Investment (NRI) : NRIs are permitted to invest upto 100 per cent foreign equity in high priority industries such as Metallurgical Industries, Electrical Equipment, Telecommunication, Transportation etc. with full benefits of repatriation of capital investment and interest accruing thereon. Automatic approvals are accorded within the prescribed parameters and the system. The conditions for automatic approval of the NRI investments are the same as those for foreign investors seeking automatic approval from the RBI.

(vi) Foreign Technology Agreements : The RBI can also accord automatic permission for foreign technology agreements involving a lump-sum payment upto Rs. 10 million, 5 per cent for domestic sales and 8 per cent for exports, subject to a total payment of 8 per cent of the sales over a period of 10 years from the date of agreement or 7 years from commencement of production.

(viii) Sectors for Public Investment : The number of sectors reserved for the public investment has been

drastically private investment both from the domestic and from foreign entrepreneurs. These areas are defence, atomic energy, coal and lignite, mineral oils, minerals specified in schedule to the atomic energy (Control of Production and use) order, 1953 and railway transport. Except for these six segments the whole Indian economy is open for private investments.

(viii) Disinvestment of PSE Shares : The disinvestment of shares of PSEs for increasing resources and to encourages wider participation of general public and workers in the ownership of the PSEs has already been resorted to. Rangarajan Committee has recommended substantial disinvestment of PSU shares.

(ix) Taxation Policy : Taxation of capital gains has been restructured to allow for inflation accounting. Double taxation of partnership firms has been abolished and financial assets such as equities and debentures have been exempted from wealth tax. These fiscal measures have improved the incentives for industrial investment and encouraged flow of resources towards industry.[64]

(x) Fiscal Policy : Fiscal policy initiatives have sought to improve the incentives for investment in the

industrial sector and encourage a shift towards exports and away from domestic markets.[65]

(xi) Export and Import (EXIM) Policy : the Export Promotion of Capital Goods (EPCG) Scheme made capital goods importable at 25 per cent and 15 per cent duty as long as the importers agreed to fulfil a stipulated export commitment. Besides, the peak import tariff was brought down from a maximum of 150 per cent to 110 per cent, thereby reducing costs of imported industrial inputs. Rates of import duties on project imports, capital goods and general machinery have been substantially reduced.[66]

(xii) The Capital Market Policy : The capital market has been liberalized and Government control on capital issues withdrawn. the office of the controller of capital issues has been abolished. The Securities and Exchange Board of India (SEBI) has been converted into a statutorily empowered Board to regulate the functioning of capital market and stock exchanges. Companies are now free to price their equity issues at their own risk and at self-determined premia, within the guidelines laid down by SEBI for investor protection.[67]

(xiii) Reorientation in Policy : Government in the past have undertaken organizational improvements in PSEs based on the recommendations of expert committees such as, establishment of holding companies and the system of MoU, and reference of sick units to the Board for Industrial and Financial Reconstruction (BIFR). Though these have resulted in some improvements a comprehensive reform of PEs was considered necessary to bring PSE operations in consonance with the overall structural changes and the Macro-economic stabilization programme initiated by the present Government. The desirability of public sector reforms has been emphasized by the need to raise the productivity of capital resources employed and to reduce PSE losses so as to reduce the size of the fiscal deficit in successive budgets. The budgetary support as percentage of the total plan outlay of the PEs has significantly come down.[68]

(xv) Promotion Cell : with the introduction of New Industrial Policy, New Exim Policy, Liberalized Exchange Rate Management System (LERMS) etc. an Investment Promotion and Project Monitoring Cell was set up to assist the entrepreneurs on a wider range of steps including the licensing policy, tariff and excise duties, corporate tax and company laws. This cell attends to the enquiries from both Indian and foreign investors

regarding extant laws and procedure and practices governing investments in industries in India. In addition, foreign entrepreneurs interested in information on infrastructural facilities available in various parts of India, clearance required at local levels etc. may also contract the cell who in turn can put them to the right officials for contact. Nodel officers have been designated in the economic ministries of Industry, Commerce, Finance, Reserve Bank of India and the India Investment Centre.

In the foregoing pages we have examined the problem of economic inefficiencies of the PSUs faced by a number of countries as well as the privatisation initiatives taken by them. Different modes of privatisation have also been discussed. In view of the world-wide developments, India also announced its structural reforms in its NIP of July 24, 1991. The speed of ongoing reforms programme is not very fast. Though the economic reforms started five years ago, bureaucracy of the country has not brought desired change in its attitude.

Automobile industry in India has been in the private sector. It was only Maruti Udyog Limited which was started in the Public Sector on February 24, 1981 with 74 per cent share of the Government of India and 26

per cent share of SMC of Japan. Its process of privatisation started alongwith the Governments NIP. On June 20, 1992, Government of India reduced its share to 49.74 per cent. The following chapter deals with automobile industry of India with special reference to Maruti Udyog Limited.

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ANNEXURE - I

LIST OF ENTERPRISES SIGNING MOU FOR THE YEAR 1996-97

Sl. No.	PUBLIC ENTERPRISE	Sl. No.	PUBLIC ENTERPRISE
1.	AIR INDIA LTD.	23.	DREDGING CORPN. OF INDIA LTD.
2.	AIRPORT AUTHORITY OF INDIA	24.	EDUCATIONAL CONSULTANTS INDIA LTD.
3.	ANDREW YULE & COMPANY LTD.	25.	ELECTRONIC TRADE & TECH. DEV.CORPN.
4.	BALMER LAWRIE & CO. LTD.	26.	ELECTRONICS CORP. OF INDIA LTD.
5.	BHARAT ALLUMINIUM CO. LTD.	27.	ENGINEERS INDIA LTD.
6.	BHARAT HEAVY ELECTRICALS LTD.	28.	EXPORT CREDIT & GUARANTEE CORPN.
7.	BHARAT YANTRA NIGAM LTD.	29.	FERRO SCRAP NIGAM LTD.
8.	BHARAT ELECTRONICS LTD.	30.	FERTILIZERS AND CHE. TRAN. LTD.
9.	BHARAT DYNAMICS LTD.	31.	FOOD CORP. OF INDIA LTD.
10.	BHARAT EARTH MOVERS LTD.	32.	GARDEN REACH SHIP BUILD. & ENGG.
11.	BHARAT PETROLEUM CORPN. LTD.	33.	GAS AUTHORITY OF INDIA LTD.
12.	BHARAT BHARI UDYOG NIGAM LTD.	34.	GOA SHIPYARD LTD.
13.	BONGAIGOAN REF. & PET. LTD.	35.	HANDICRAFTS AND HANDLOOMS EXP.
14.	C M C LTD.	36.	HINDUSTAN AERONAUTICS LTD.
15.	CENTRAL COTTAGE INDUSTRIES CORPN.	37.	HINDUSTAN PAPER CORP. LTD.
16.	CENTRAL WAREHOUSING CORPN.	38.	HINDUSTAN ORGANIC CHE. LTD.
17.	CENTRAL ELECTRONICS LTD.	39.	HINDUSTAN PETROLEUM CORPN.
18.	COAL INDIA LTD.	40.	HINDUSTAN INSECTICIDES LTD.
19.	COCHIN REFINERIES LTD.	41.	HINDUSTAN TELE PRINTERS LTD.
20.	COCHIN SHIPYARD LIMITED	42.	HINDUSTAN ZINC LTD.
21.	CONTAINER CORPN. OF INDIA LTD.	43.	HINDUSTAN CABLES LTD.
22.	COTTON CORPORATION OF INDIA LTD.	44.	HINDUSTAN LATEX LTD.
		45.	HINDUSTAN SHIPYARD LIMITED

Sl. No.	PUBLIC ENTERPRISE	Sl. No.	PUBLIC ENTERPRISE
46.	HMT LIMITED	68.	MANGANESE ORE INDIA LTD.
47.	HINDUSTAN ANTIBIOTICS LTD.	69.	MAZAGON DOCKS LTD.
48.	HINDUSTAN COPPER LTD.	70.	MET. & ENGG. CONSULT. CORP.
49.	HINDUSTAN VEGETABLE OIL CORPN.	71.	METAL SCRAP TRADING CORP.
50.	HOSPITAL SERVICES CONSULTANCY CORPORATION.	72.	MINERAL & METAL TRAD. CORP.
51.	HOUSING & URBAN DEV. CORPN.	73.	MINERAL EXPLORATION CORP.
52.	I B P LTD.	74.	MISHRA DHATU NIGAM LTD.
53.	INDIAN AIRLINES LTD.	75.	MODERN FOOD INDUSTRIES INDIA LTD.
54.	INDIAN OIL CORPN.	76.	NATIONAL HANDLOOM DEV.CORPN.
55.	INDIAN RARE EARTHS LTD.	77.	NATIONAL BUILDING CONST. CORPN. LTD.
56.	ITI LTD.	78.	NATIONAL THERMAL POWER CORPN.
57.	INDIAN PETRO CHEMICALS LTD.	79.	NATIONAL ALUMINIUM CO. LTD.
58.	INDIAN RAILWAY CONSTN. CORPN.	80.	NATIONAL FERTILIZERS LTD.
59.	INDIAN RAILWAY FINANCE CORPN.	81.	NATIONAL MINERAL DEV. CORPN.
60.	INDIAN TRADE PROMOTION ORGN.	82.	NATIONAL HYDRO ELECTRIC POWER CORPN.
61.	INDIAN RENEWABLE ENERGY DEV. AGENCY	83.	NATIONAL RESEARCH DEVE.CORPN. OF INDIA.
62.	INDIAN TOURISM DEV. CORPN.	84.	NATIONAL INDUSTRIAL DEV. CORPN. LTD.
63.	KARNATAKA ANTIBIOTICS & PHARMACEUTICALS LTD.	85.	NATIONAL FILM DEVELOPMENT CORPN.
64.	KUDREMUKH IRON ORE INDIA LTD.	86.	NATIONAL SMALL SCALE INDUSTRIES CORPORATION
65.	LUBRIZOL INDIA LTD.	87.	NEYVELE LIGNITE CORPN. LTD.
66.	MADRAS REFINERIES LTD.	88.	NORTH EAST ELEC. POWER CORPN.
67.	MADRAS FERTILIZERS LTD.		

Sl. No.	PUBLIC ENTERPRISE	Sl. No.	PUBLIC ENTERPRISE
89.	NUCLEAR POWER CORP.	102.	SPONGE IRON INDIA LTD.
90.	OIL INDIA LTD.	103.	STATE TRADING CORPN.
91.	OIL AND NATURAL GAS CORPN.	104.	STATE FARMS CORPORATION
92.	PARADEEP PHOSPHATES LTD.	105.	STEEL AUTHORITY OF INDIA LTD.
93.	POWER FINANCE CORPORATION	106.	TELE COMMU. CONS. INDIA LTD.
94.	POWER GRID CORP. OF INDIA	107.	URANIUM CORPORATION OF INDIA LTD.
95.	PROJECTS AND EQUIPMENT CORP.LTD.	108.	VIDESH SANCHAR NIGAM LTD.
96.	PYRITES PHOSPHATE & CHEMICALS LTD.	109.	WATER AND POWER CONSULTANCY SERVICES
97.	RAIL INDIA TECHNICAL AND ECONOMIC SERVICES	110.	ENGINEERING PROJECTS INDIA LTD.
98.	RASHTRIYA CHEMICALS & FERT. LTD.	111.	HINDUSTAN STEEL WORKS CONSTN. CORPN. LTD.
99.	RASHTRIYA ISPAT NIGAM LTD.	112.	NORTH EASTERN REGIONAL MARKETING CORPN. LTD.
100.	RURAL ELECTRIFICATION CORPN.		
101.	SHIPPING CORPORATION LTD.	113.	NATIONAL SEEDS CORPN. LTD.
		114.	RASHITRIYA PARIYOJNA NIRMAN NIGAM LTD.

ANNEXURE - II

MOU SCORES FOR 1995-96

Sl.No.	ENTERPRISE	SCORE	RATING
1.	Telecommunications Consultant India Ltd.	1	Excellent
2.	Projects & Equipment Corpn.	1	Excellent
3.	National thermal Power Corpn.	1	Excellent
4.	National Mineral Development Corpn.	1	Excellent
5.	Rail India Technical Eco. Services	1	Excellent
6.	Cotton Corpn. of India	1	Excellent
7.	Hindustan Petroleum corpn. Ltd.	1	Excellent
8.	Educational Consultants India Ltd.	1.02	Excellent
9.	Power Grid Corpn.of India	1.03	Excellent
10.	Cochin Refineries Ltd.	1.04	Excellent
11.	Bharat Petroleum Corpn.Ltd.	1.05	Excellent
12.	National Industrial Development Corpn.	1.06	Excellent
13.	Kudremukh Iron Ore Ltd.	1.06	Excellent
14.	Metallurgical Engineering Consultants Ltd.	1.06	Excellent
15.	IRCON Internationals	1.07	Excellent
16.	Gas Authority of India Ltd.	1.1	Excellent
17.	Hindustan Organic Chemicals Ltd.	1.11	Excellent
18.	Steel Authority of India Ltd.	1.12	Excellent
19.	Bharat Heavy Electricals Ltd.	1.13	Excellent

Sl.No.	ENTERPRISE	SCORE	RATING
20.	Shipping Corporation of India Limited	1.13	Excellent
21.	Balmer Lawrie & Co.	1.14	Excellent
22.	Power Finance Corpn. Ltd.	1.14	Excellent
23.	Container Corpn.of India	1.14	Excellent
24.	Indian Oil Corpn.	1.14	Excellent
25.	Central Cottage Industries Limited	1.16	Excellent
26.	IBP Ltd.	1.17	Excellent
27.	Manganese Ore India Ltd.	1.2	Excellent
28.	Hindustan Insecticides Ltd.	1.2	Excellent
29.	Hindustan Aeronautics Ltd.	1.22	Excellent
30.	Rural Electrification Corpn.	1.23	Excellent
31.	Ferro scrap Nigam Ltd.	1.24	Excellent
32.	Fertiliser & Chemicals Travancore Ltd.	1.25	Excellent
33.	Water & Power Consultancy Services	1.27	Excellent
34.	Indian Tourism Development Corporation	1.29	Excellent
35.	Videsh Sanchar Nigam Ltd.	1.32	Excellent
36.	Central Warehousing Corpn.	1.34	Excellent
37.	Oil & Natural Gas Corpn.	1.35	Excellent
38.	Modern Food Industries Ltd.	1.35	Excellent
39.	National Building Construction Corpn. Ltd.	1.36	Excellent
40.	National Fertiliser Ltd.	1.38	Excellent

Sl.No.	ENTERPRISE	SCORE	RATING
41.	Rashtriya Ispat Nigam Ltd.	1.40	Excellent
42.	Bongaigaon refineries & Petroleum Ltd.	1.38	Excellent
43.	National Aluminium Co.Ltd.	1.4	Excellent
44.	Dredging Corpn.of India Ltd.	1.4	Excellent
45.	National Hydro Electric Power Corpn.	1.4	Excellent
46.	Indian Petrochemicals Ltd.	1.42	Excellent
47.	Neyveli Lignite Corpn. Ltd.	1.45	Excellent
48.	Madras Fertilisers Ltd.	1.45	Excellent
49.	CMC Ltd.	1.46	Excellent
50.	Indian Trade Promotion Organisation	1.46	Excellent
51.	Indian Airlines	1.49	Excellent
52.	Bharat Dynamics Ltd.	1.51	Very Good
53.	Airport Authority of India	1.52	Very Good
54.	Hindustan Vegetables Oil Corporation	1.58	Very Good
55.	National Small Scale Industries Corporation	1.58	Very Good
56.	Pyrites Phosphates & Chemicals Ltd.	1.6	Very Good
57.	Hindustan Paper Corpn.Ltd.	1.62	Very Good
58.	State Trading Corpn.	1.62	Very Good
59.	Mazgaon Dock Ltd.	1.63	Very Good
60.	Lubrizol India Ltd.	1.64	Very Good
61.	Nuclear Power Corpn.	1.64	Very Good
62.	Housing & Urban Development Corporation	1.77	Very Good

Sl.No.	ENTERPRISE	SCORE	RATING
63.	Engineers India Ltd.	1.7	Very Good
64.	Rashtriya Chemicals & Fertiliser Ltd.	1.71	Very Good
65.	National Handloom Development Corporation	1.74	Very Good
66.	Goa Shipyard Ltd.	1.76	Very Good
67.	Coal India Ltd.	1.88	Very Good
68.	National Film Development Corpn.	1.9	Very Good
69.	Hindustan copper Ltd.	1.97	Very Good
70.	Bharat Bhari Udyog Nigam Ltd.	2.04	Very Good
71.	Hindustan Zinc Ltd.	2.05	Very Good
72.	Mineral & Metal Trading Corporation	2.09	Very Good
73.	Mineral exploration Corpn.	2.2	Very Good
74.	Bharat Aluminium Co. Ltd.	2.27	Very Good
75.	Food Corporation of India Limited	2.28	Very Good
76.	Oil India Ltd.	2.3	Very Good
77.	Mishra Dhatu Nigam Ltd.	2.34	Very Good
78.	Garden Reach Shipbuilders & Engineers Ltd.	2.42	Very Good
79.	Export Credit & Guarantee Corporation	2.43	Very Good
80.	Sponge Iron India Ltd.	2.44	Very Good
81.	Bharat Electronics Ltd.	2.47	Very Good
82.	Andrew Yule & Co. Ltd.	2.48	Very Good

Sl.No.	ENTERPRISE	SCORE	RATING
83.	Indian Renewable Energy Development agency	2.53	Good
84.	Bharat Yantra Nigam Ltd.	2.71	Good
85.	Uranium Corpn.of India Ltd.	3.04	Good
86.	North East Power Corpn.	3.07	Good
87.	National Research Development Corpn. of India	3.13	Good
88.	Indian Rare Earths Ltd.	3.16	Good
89.	Metal Scrap Trading corpn.	3.47	Good
90.	Electronic Corpn.of India Limited	3.57	Fair
91.	Hindustan Latex Ltd.	3.62	Fair
92.	Hindustan Cables Ltd.	3.64	Fair
93.	Central Electronics Ltd.	4.06	Fair
94.	HMT Ltd.	3.82	Fair
95.	Bharat Earth Movers Ltd.	3.92	Fair
96.	Karnataka Antibiotic and Pharmaceuticals Ltd.	3.92	Fair
97.	Indian telephone Industries Limited	4.23	Fair
98.	Air India	4.25	Fair
99.	Paradeep Phosphates Ltd.	4.32	Fair
100.	Madras Refineries Ltd.	4.36	Fair
101.	State Farms Corpn.	4.47	Fair
102.	Hindustan Antibiotics Ltd.	4.6	Poor
103.	Electronics Trade & Tech. Development Corpn.	4.96	Poor
104.	Hindustan Teleprinters Ltd.	1.23	Excellent

ANNEXURE - III

LIST OF DEVELOPING COUNTRIES IMPLEMENTING PRIVATISATION

1. Argentina
2. Bangladesh
3. Benin
4. Bolivia
5. Brazil
6. Cameroon
7. Central African Republic
8. Chile
9. Columbia
10. Costa Rica
11. Cote D' Ivoire
12. The Dominicant Republic
13. El Salvador
14. Egypt
15. Fiji
16. Gabon
17. Gambia
18. Ghana
19. Grenada
20. Guinea
21. Guinea Bissau
22. Honduras
23. Jamaica
24. Jordan
25. Kenya
26. Liberia
27. Malawi
28. Malaysia
29. Mauritania
30. Mexico
31. Moroco
32. Mozambique
33. Nepal
34. Niger
35. Nigeria
36. Oman
37. Pakistan
38. Panama
39. Papua New Guinea
40. Peru
41. Philippines
42. Rwanda

ANNEXURE - III CONTINUED

43. Sao Tome E Principe	51. Tabago
44. Senegal	52. Tunisia
45. Sierra Leone	53. Turkey
46. Somalia	54. Uganda
47. Sri Lanka	55. Venezuela
48. Thailand	56. Western Samoa
49. Togo	57. Zaire
50. Trinidad	58. Zambia

Source: Manual on Privatisation-Adam Smith Institute-1989.

CHATPER- V

A CASE STUDY OF AUTOMOBILE INDUSTRY OF INDIA

CHAPTER - V

A CASE STUDY OF AUTOMOBILE INDUSTRY OF INDIA

Historical Background :

The origin of the automobile industry in India can be traced back to 1942, when Hindustan Motor Limited was established in Baroda.[1] In 1949 the first partially manufactured car rolled out of the assembly line of the Hindustan Motors Limited.[2] The establishment of Hindustan Motors Limited (HML) was followed by Premier Automobiles Limited (PAL) and Standard Motor Products Limited (SMPL). Both of these car manufacturing units were set up in Bombay and Madras respectively.[3]

As is the case with each and every line of new production, the initial years were the years of strains and stresses and the manufacture of motor vehicles could not be taken up till 1953 when the Government of India approved the recommendations of the Tariff Commission with respect to this industry. Most of the manufacturing units started production in 1953-54. They were compelled to work at a loss as the small Indian market was, at that time, overflooded with the imported cars of various designs.[4] Ashok Leyland, took up the production of commercial vehicles in 1957, Tata

Engineering and Locomotive Company (TELCO) in 1962, while Mahindra and Mahindra was promoted in 1965 in the Jeep Line.[5] In two wheelers group Royal Enfield Motors Limited was established in 1955 as pioneer, in collaboration with the Enfield Cycle Company Limited, England at Thiruvottiyar, in Madras. This was followed by the establishment of Bajaj Auto and Escorts and Jawa. All of these were the prominent units. The late 'Eighties' witnessed breath-taking developments. During this period a number of automobile manufacturing units were set up which included, Hindustan Motors Limited, Maruti Udyog Limited, Swaraj Mazda Limited, D.C.M. Daewoo Motors Limited, etc., for manufacturing of light commercial vehicles, heavy commercial vehicles and two wheelers. It opened up a new chapter in the history of Indian automobile Industry.

Trends in Production - Commercial Vehicles

(i) Medium & Heavy Commercial Vehicles (M & HCVs) :

Table No. 5.1 sets out statistics of production of Medium and Heavy Commercial Vehicles as well as light commercial vehicles from 1948-50 to 1994-95 with gaps of five years upto 1980 and then on yearly basis. It will be observed from the figures presented in the table that upto the year 1980 there was a continuous rise in the production of both Medium and Heavy

TABLE NO. 5.1

TREND IN PRODUCTION OF COMMERCIAL VEHICLES

(Unit: No. of Vehicles)

Year	Medium & Heavy Commercial Vehicles	% Increase/ decrease (-)	Light Commercial Vehicles	% Increase/ decrease (-)	Total
1948-50	764	-	11683	-	12447
1951-55	5731	6.50	17707	52	23438
1956-60	73064	11.75	24452	38	97516
1961-65	126283	73	27881	14	154164
1966-70	149805	19	29161	5	178966
1971-75	169883	13	40195	38	210028
1976-80	207716	22	62189	55	269905
1981	65234	- 69	24518	- 61	89752
1982	61393	- 6	28853	18	90246
1983	60120	- 2	7245	- 6	87365
1984	60500	0.6	32893	21	93393
1984-85	62844	4	33160	0.8	96004
1985-86	63926	2	36528	10	100454
1986-87	60196	- 6	37624	3	97820
1987-88	64933	8	45167	20	110100
1988-89	70225	8	46274	2.5	116499
1989-90	76594	9	48457	5	125051
1990-91	86807	13	57746	19	144553
1991-92	89544	3	53710	- 7	143254
1992-93	76051	- 15	52529	- 2	128580
1993-94	75495	23	101994	56	194799
1994-95	92805	39	129730	27	259130
1995-96	129400	6	N.A.		N.A.

SOURCE :

1. Kothari's Year Book on Business and Industries 1988,1991, PA-29,PA-76
2. Kothari's Industrial Directory of India, pp. 8-5.
3. India, op.cit., 1995, p. 525.
4. Indian Express, 'Investment Week', New Delhi, Jan. 6-12, 1997, p.10.

Commercial Vehicles as well as Light Commercial Vehicles with sudden ups and downs.

The year 1981 marked as abrupt decline in the production of both types of vehicles. While the production of Medium and Heavy Commercial Vehicles fell down by 69 per cent, that of the Heavy Commercial Vehicles registered a fall of 61 per cent. The next two consecutive years registered fall in the production of both types of vehicles with varying degrees. During the next three years production picked up for both types of vehicles with varying percentages over the previous years. With a slight percentage fall in the production of M & HCVs during 1986-87, production of both types of vehicles continued to rise til 1990-91. During 1991-92 while the production of Light Commercial Vehicle declined by seven per cent that of the M & HCVs increased by three per cent. However, during the year 1992-93, production of both types of vehicles declined (15 per cent in case of M & HCVs and 2 per cent in case of light commercial vehicles). Since 1993-94, production of both types of vehicles has been showing a rising trend.

The demand for commercial vehicles may also get accelerated with new provision of the amended Motor

Vehicle Act. The average vehicles have to be replaced at a faster rate for ensuring efficiency and economy in fuel consumption. The pattern of growth in the sales of HCVs and LCVs in the Eight Plan may be different as the offtake of HCVs will be more pronounced because of the economies in operation and the increase in volume of long distance traffic. The target of production was around 2 lakhs in 1994-95 and capacity was around 2.2 lakhs vehicles.[6]

Telco-the market leader in HCV - also commands 60 per cent of the light commercial vehicle (LCVs) market, followed by Bajaj Tempo, which holds 22 per cent of the market with its Matador brand. The remaining segment is shared between six other manufacturers, all of whom will be trying desperately to break Telco's monopoly.[7]

In the 1996-97 budget, the excise duty on LCVs was hiked from 10 per cent to 15 per cent. Earlier a dual excise duty used to prevail in case of commercial vehicles. All fuel efficient vehicles (decided on the basis of norms released by the Ministry) were required to pay 10 per cent duty and other LCVs and Medium and Heavy Vehicles were charged 15per cent. Due to the rationalised excise duty in the budget, the fuel

efficient clause has been abolished and, as a result, LCV manufacturers now pay 5 per cent more than what they were charged earlier. This has led to an increase in the prices of these vehicles which is ultimately passed on to the customers and thus can rightly be adduced as the prime reason for the sliding of sales this year. In fact, prices have gone up substantially by Rs. 20,000 to Rs. 25,000 because of the new duty structure. This has directly affected the leading LCV manufactures like Telco, Eicher Motors, Bajaj Tempo, Ashok Leyland and Swaraj Mazda.

Protogonists maintain that in the international markets, the ratio of LCV to HCV is around 60:40 while in Indian market it is around 45:55 and thus this segment is likely to grow the fastest. But a point to be noted is that growth (sales) here in the last two years has been abnormally high (around 35%). Such a high growth rate cannot be sustained on a year to year basis. During the current year, growth of sales (for the April-November period) fell from a height of 40 per cent (1995-96 over 1994-95) to a low of 17 per cent in 1996-97. Although Telco's production has grown by 33 per cent (61,663 LCVs produced in April-November 1995-96 as against 46,610 vehicles produced in the

previous corresponding period), it is reliably learnt that the company has piled up huge inventories. Telco has reportedly decided to give priority to liquidating stocks in the second half and hence the high growth rate in production seen last year is likely to be cut down this year. If this is the state of the market leader then a slow down can definitely be expected among other players too.[8]

(ii) Passenger Cars :

Some major developments have also been taking place in the passenger car sector. The first passenger car plant of India was established on the outskirts of Calcutta in the early 1940s and in the next few years two more plants came up at Bombay and Madras.[9] But in subsequent years there was no induction of new technology in the passenger car sector and production stagnated. The idea of manufacturing 'Peoples' car (small and low priced) was first developed in early 1960s but this project was not given serious consideration till the 1970s.[10]

Table No. 5.2 shows that the total production of passenger cars increased from a mere 9267 units in 1948-50 to 347,800 units in 1995-96 which shows an

increase of 3653 per cent over the 1948-50 with the average rate of growth of 31.638 per cent. During the periods, 1951-55, 1956-60, 1961-65, 1966-70 and 1985 the production of passenger cars was very impressive. Except for the aforementioned periods, the production of passenger cars was very low as compared to other sectors of the automobile industry.

The growth in passenger car market, in fact, slowed down to under ten per cent on an annual basis. Exports continued to drive growth with export volumes up at 32 per cent annually as compared to only three per cent growh in domestic sales in February, 1997.

TABLE NO. 5.2

TREND IN PRODUCTION OF PASSENGER CARS

(Unit : Number)

Year	Production	Growth % over Previous Years
1948-50	9267	-
1951-55	23057	148.80
1956-60	64746	180.80
1961-65	108716	67.92
1966-70	168627	55.10
1971-75	176152	4.47
1976-80	163768	- 7.03

Contd....

1981	42106	- 0.74
1982	42674	1.35
1983	44674	4.69
1984	63728	42.66
1985	102456	60.77
1986	115285	12.52
1987	121000	4.96
1988	151000	24.80
1989	166000	9.94
1989-90	179278	7.99
1990-91	180333	0.58
1991-92	166383	- 7.73
1992-93	163100	- 1.97
1993-94	207658	27.31
1994-95	264468	27.35
1995-96	347800	31.50

SOURCE : 1. Kothari's Year Book on Business and Industry, Published by Kothari Enterprises, Madras, 1988, p. A29.

2. Kothari's Industrial Directory of India, Op.cit., 1994, p. 8-5.

3. Financial Express, New Delhi, May 20, 1989, page 6.

Export growth (mainly of Maruti) at 36 per cent is more than double of the 17 per cent annual growth in the

domestic car sales, though significantly below the 30 per cent improvement in 1995-96, 26 per cent in 1994-95 and 28 per cent in the previous year. Sales of Maruti's 800 CC continued to be brisk while the Premium segment suffered a bit.[11]

With the sustained growth in the automobile sector the estimated demand for passenger cars by the year 2000 would be around 60,000. A recent study by the Confederation of Indian Industry (CII) shows that the demand for the passenger cars is generated in the top 10 per cent income bracket comprising about 90 million people. However, the size of car-owning households is currently 3 to 4 million and according to the study, the future prospect of the passenger car industry would, among other things, depend on the possibility of growth in size of households and the growth in incomes of this category.[12]

Passenger car production grew by 19 per cent during the April-November of 1996-97. This growth has been much lower than the massive 38 per cent growth evinced in the same period of 1995-96. Again in the 1996-97 budget, the duty on cars designed to carry not more than six persons remained unchanged at 40 per cent and thus did not provide any direct impetus for growth.

What comes out clearly in the passenger car market are new contestants (in the mid car segment) catering to a fairly narrow market.[13]

(iii) Three-Wheeler Vehicles :

It is clear from table No. 5.3 that the total production of three-wheeler vehicles increased from 469 in 1960 to 65,166 in 1992-93 showing an overall increase of 13,794.66 per cent over 1960 with the average rate of growth of 211.30 per cent. It is also evident from the table that the production of three wheeler vehicles was continuously rising, from 1960 to 1990 wherefrom it shows a declining trend. In fact, it was for the first time that the production of three-wheeler vehicles showed a negative trend till 1992-93. Thus, this was not a good period for this sector of the automobile industry. Bajaj Auto Limited, Automobile Products of India Limited and Scooters India Limited, are the leading producers. Of them, Bajaj Auto accounts for 79 per cent of entire production. Total production of three-wheelers was 89,488 during 1990-91, which was more than 467 per cent as compared to production of 1976.[14]

TABE NO. 5.3

TREND IN PRODUCTION OF THREE WHEELER VEHICLES

Year	Production	Growth % Over Previous Year
1950	-	-
1960	469	-
1970	4229	801.7
1980	26519	527.0
1985	49267	85,7
1990	95528	93.8
1990-91	89162	- 0.06
1991-92	76652	-14.03
1992-93	65166	-14.98
1993-94	91608	40.57
1994-95	127532	39.21

SOURCE:
1. ACMA, Automotive Industry of India Facts and Figures 1989-90, New Delhi.
2. Kothari's Year Book 1991, Op.cit., p.A76.
3. Kothari's Industrial Directory of India,1994, Op.cit., p. 8-5.
4. India - 1995, Op.cit., p. 539.

Three-wheeler volume growth slowed down in February 1997 again despite absolute sales volume remaining strong. It is expected that the volume of growth will improve in the coming months with the phased commissioning of Bajaj Auto's expansion programme.[15] In fact, three-wheeler population is likely to be 1,741,122 by the year 2001.[16]

(iv) Two Wheelers :

The first two-wheeler in the country was produced in 1955[17] by the Royal Enfield Motors Limited. It was set-up as pioneer in motor-cycle industry in collaboration with the Enfield Cycle Corporation Limited, England in Madras to manufacture 350 CC 'Bullet' Motor cycles having a 4-troke single cylinder engine.[18] During the late 'Eighties' the Government attitude changed radically. Not only did it recognize the advantages of economies of scale but also the fact that the models being made in the country were hopeless and outdated. There was a long waiting period for delivery of vehicles in some cases. The Government recognized the need to satisfy the growing demand and the consumer was not getting the benefit of modern automotive technology in internal combustion engine technology available elsewhere outside India.

The Government liberalized its technology import policy and eased the restrictions on foreign collaboration and import of critical components and reduced duties and taxes on fuel efficient vehicles. So with the new open door policy on technology imports, especially the easing of restriction on manufacturing equipment and kit imports, there is enthusiasm among almost every well known manufacturer abroad to offer technical and financial collaboration to the Indian companies, the prominent ones are Ind-Suzuki (Motor-cycles) with Suzuki of Japan, Escorts (Motor-cycles) with Yamaha of Japan, Bajaj (Motor-Cycles) with Kawasaki of Japan, Hero with Honda of Japan. In Scooter, Kinetics with Honda of Japan, Lohia Machines and A.P. Scooters with Piaggio of Italy, Kelvinator (Moped) with Garelli of Italy, Chamundi Mopeds with Cycles Peugeot of France, Mopeds India with Motobecan of France and Enfield India (Moped & Motor Cycles) with Zundapp Werke of West Germany etc.[19] as is evidenced by details given in Table No. 5.4

It will be clear from Table No. 5.5 that the production of two-wheelers rose to 1262396 vehicles in 1995 against 18626 vehicles in 1960 which showed an increase of 6677.6 per cent over 1960 with an average

TABLE NO. 5.4

PASSENGER CAR PROJECTS WITH FOREIGN COLLABORATION

	Foreign Collaboration	Country	Location/ State	Cost (Rs in crores)	Capacity	Completion date
DCM Daewoo Motors	Daewoo Motors	Korea	Surajpur/ U.P.	3,474	252	Dec.98
Hyundai Motor India	Hyundai Motor	Korea	Irrugattu-kkottai/ T.N.	2,450	100	Jul.98
Mahindra Ford	Ford Motor	U.S.A.	Maraimala-nagar/T.N.	1,700	50	Dec.98
Honda SIEs Cars Indi	Honda Motor	Japan	Noida/U.P.	855	30	Oct.97
Mercedes Benz India	Daimler Benz	Germany	Chikhalli/ Mah	750	20	Dec.96
Overseas Concept Auto	Concept Auto	U.K.	Rajpura/ Punjab	600	10	Dec.98
Eicher Motors	Scoda	Germany	KarnatakA	500	60	Mar.00
General Motor India	Mitsubi-shi	Japan	Chennai/T.N.	320	30	Dec.97
General Motor India	General Motors	U.S.A.	Halol/Guj.	320	25	N.A.
BMW India	BMW	Germany	Noida/U.P.	270	10	N.A.
Kinetic Engg.	Aixam Briggs & Strator	U.S.A.	Pune/Mah	100	50	Oct.96
Frezer Nash Peerless auto	Frezer Nash	U.K.	Okhla/DHL	20	4	N.A.

SOURCE: Indian Express, Investment Week, New Delhi, January 6-12, 1997.

TABLE NO. 5.5

TRENDS IN PRODUCTION OF TWO-WHEELERS

A = Output (No. of Vehicles)

B = Percent Share to Total

Year	Category	Scooters	Motor-cycles	Mopeds	Total
1960	A	11994	3998	2634	18626
	B	64.39	21.46	14.15	
1970	A	58392	42968	11687	113047
	B	51.65	38	10.35	
		(386.85)	(974.74)	(343.70)	(506.9)
1975	A	101763	69739	36195	207697
	B	49	33.58	17.42	
		(74.85)	(62.30)	(209.70)	(83.7)
1980	A	209943	101586	106073	417602
	B	50.28	24.32	25.40	
		(106.30)	(45.67)	(193.05)	
1981	A	202884	110795	185424	499103
	B	40.65	22.20	37.15	
		(-3.37)	(9.06)	(74.80)	(19.5)
1982	A	250727	129999	212562	593288
	B	42.26	21.92	35.82	
		(23.59)	(17.34)	(14.64)	(18.8)
1983	A	273850	156254	329079	759183
	B	36.07	20.58	43.35	
		(9.23)	(20.19)	(54.82)	(27.96)
1984	A	297303	175283	376994	849580
	B	34.93	20.63	44.37	
		(8.56)	(12.18)	(14.56)	(11.9)
1985	A	422307	248001	455298	1125606
	B	37.52	22.03	40.45	
		(42.05)	(41.49)	(20.77)	(32.48)

1986	A	578063	325000	445000	1348063
	B	42.89	24.10	33.01	
		(36.89)	(31.05)	(-2.27)	(19.76)
1987	A	626000	301000	476000	1403000
	B	44.61	21.45	33.92	
		(9.29)	(-7.38)	(6.96)	(4.07)
1988	A	663000	412000	465000	1540000
	B	43.05	26.75	30.19	
		(5.91)	(36.87)	(-2.31)	(9.76)
1989	A	850000	421000	426000	1697000
	B	50.08	24.8	25.10	
		(28.20)	(2.18)	(-8.38)	(10.19)
1990	A	875259	417401	441950	1734610
	B	50.45	24.06	25.47	
		(2.97)	(-0.008)	(3.74)	(2.21)
1990-91	A	910417	470859	440359	1821635
	B	49.97	24.84	24.17	
		(4.01)	(12.8)	(-0.3)	(5.01)
1991-92	A	766620	430366	406081	1603067
	B	47.8	26.84	25.33	
		(-15.7)	(-8.59)	(-7.78)	(-11.99)
1992-93	A	703105	384080	413356	1500541
	B	46.85	25.59	27.54	
		(-8.28)	(-10.75)	(1.79)	(-6.39)
1993-94	N.A.	N.A.	N.A.	N.A.	1756095
					(17.03)
1994	A	489457	292053	234494	1016004
(Apr.Sept.)	B	48.17	28.74	23.08	(-42.14)
1995	A	581160	388247	292989	1262396
(Apr.Sept.)	B	46	30.75	23.20	
		(18.7)	(32.93)	(24.94)	(24.25)

NOTE: The figures in brackets indicate the percentage rise/ decline over previous year.

SOURCE: 1. Kothari's Year Book on Business and Industry,1988, PA20, 1991, PA78.
2. Financial Express Investment Week Guide, February, 26-March 4, 1990, Bombay, p. 13.
3. Kothari's Industrial Directory of India, 1994, p. 8-6.
4. Data India, November 19-25, 1995.
5. India - 1995, p. 539.

rate of growth of 43.89 per cent. It is also a fact that the production of two-wheelers in some years was so low that production figures resulted in negative trends in comparison to the previous years. In fact, the overall production figure rose in 1985 by 32.48 per cent as compared to previous year, while in 1975, as a result of the Government's liberalized technology import policy, overall increase was 83.7 per cent in comparison to 1970.

The production of scooters was 581160 in 1995 (April-September) as against 11994 scooters in 1960 which showed an increase of 4745.42 per cent over 1960. The production of Motorcycles was 388247 in 1995 (April-September) as against 3998 motorcycles in 1960 which showed an increase of 9611.03 per cent over 1960. In 1970, the Motorcycles captured 38 per cent of the total production of two-wheelers. The market share of the motorcycles was lowest in 1983 (20.58 per cent). The production of Mopeds was 292989 in 1995 (April-September) as against 2634 Mopeds in 1960 which showed an increase 11023.34 per cent over 1960. The production figures of Mopeds was highest in 1970 which showed 343.70 per cent increase over 1960 while their production figure was lowest in 1989. In the two

wheelers market Mopeds captured highest share in 1984 (44.44%) and the lowest in 1970 with 10.35 per cent of the total two-wheelers production. On the whole two-wheelers production has shown ups and downs over the years.

A close look at the sales pattern of last three years is quite revealing. Scooters continue to dominate the market with as high as 46.8 per cent share. This is perhaps because it is considered to be a family vehicle. The remaining market is shared by motorcycles and moped.[20]

Motorcycles sales were the highest for the second successive month of 1997. Over the last four months sales have accounted for 115 per cent of the total two-wheeler volume growth, implying that volumes for scooters and mopeds have declined in absolute terms. Hero Honda, historically plagued by capacity constraints, has been the major market share gainer in the last three months, its capacity in Dharuhera having increased to three lakh vehicles in December 1996.[21]

The two-wheeler market has shed its complacency and has become hot. Manufacturers are trying to woo the customers by offering better deals and better products. The heavies of the past years like bullet and Jawa have

become out dated. They have new bikes in 100 CC class made in collaboration with Japanese giants like Honda, Kawasaki and others. They have become the rage of the youth because of their performance, looks and above all, reliability.[22]

Figure-5.1 indicates that the demand for two-wheeler vehicles has been constantly increasing from 1990-91 and this trend is likely to continue till 2000 A.D.[23]

Projected Vehicle Population in India in 2001 :

The Indian Automobile Manufacturers Association (AIAM), the apex body of automobile manufacturers, have made some projections on the vehicle population, production, sales and exports. According to AIAM, India's total vehicle population is estimated to cross over 53 million by the year 2000-2001 from the present 27 million (1994-95).

The major contribution to this 53 million plus vehicle population is expected to come from two-wheelers with a total number of 40,260,383. Passenger cars is next with an expected population of 6,166,026 followed by Light, Medium and Heavy Commercial Vehicles while the three-wheelers population is likely to be

TWO WHEELER DEMAND FORECAST

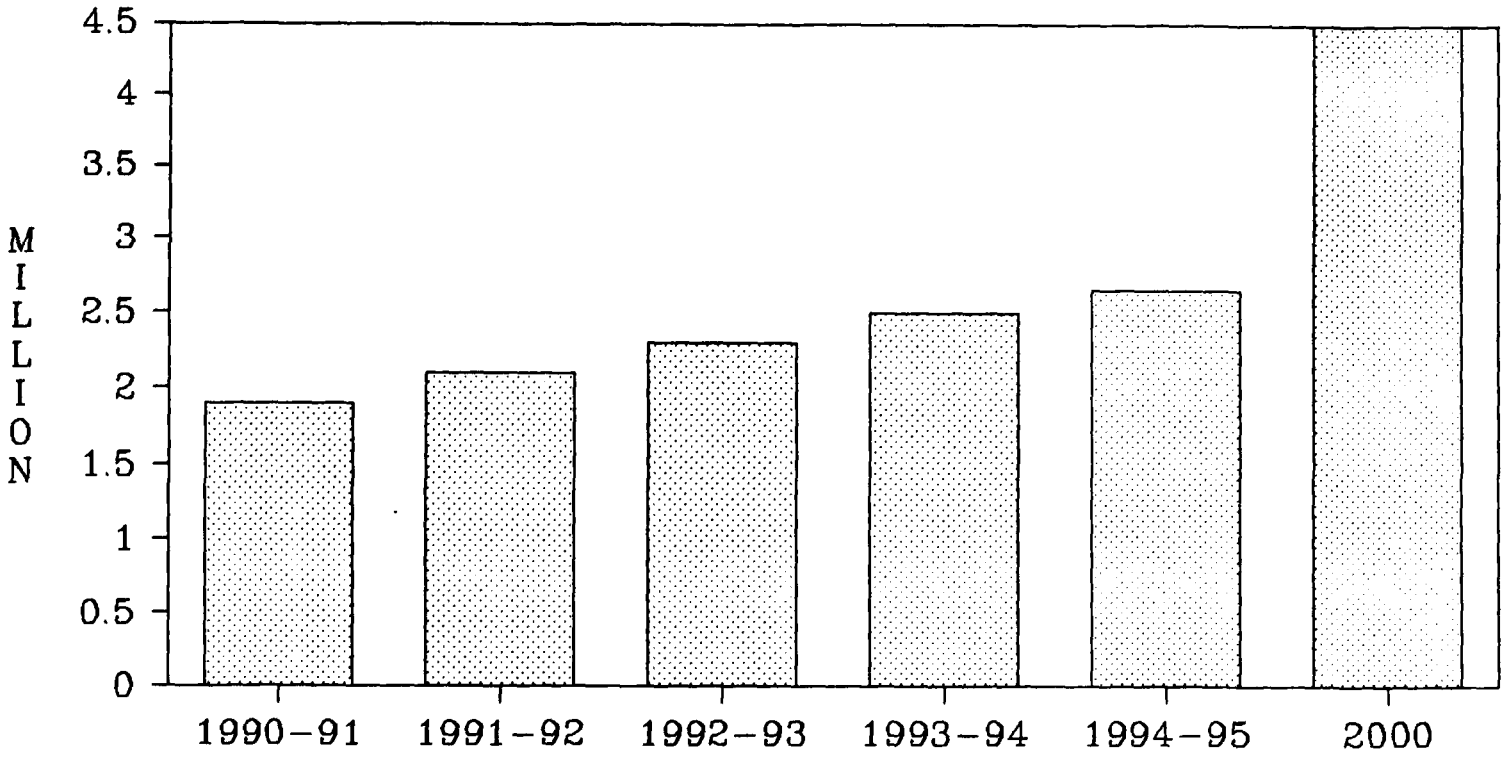


FIGURE NO. 5.1

Source : Kothari's Year Book Published
by Kothari Enterprises. Chennai. 1991

TABLE NO. 5.6

PROJECTED VEHICLE POPULATION IN INDIA IN 2001

Year	Total
1992-93	23,198,090
1993-94	25,343,426
1994-95	27,761,857
1995-96	31,015,507
1996-97	34,606,762
1997-98	38,627,143
1998-99	43,159,562
1999-2000	48,240,222
2000-2001	53,100,314

SOURCE: Data India, Press Trust of India, New delhi, November, 19-25, 1995, p. 903.

1,741,122 by the year 2001, the number of utility vehicles like the Jeep is estimated to be 1,083,947. The AIAM also claims that total vehicles sales wil also go up considerably from 2,985,000 in 1994-95 to 3,253,650 in 1995-96 and would reach 5,668,726 by the year 2000-2001.[24]

During the Eighties India became the seventh largest producer of automobiles and the industry is not only able to meet the country's requirement but also has some exportable surplus.[25] With about 12 lakh vehicles of all types being manufactured every year in India, the country currently ranks ninth among the automobile manufacturing countries in the World.[26] In the production of two-wheelers, India stand second in the world after Japan.

EXPORTS OF AUTO COMPONENTS :

It is clear from table No. 5.7 that Auto component exports, which were hovering around a low base of Rs. 150-200 crore near the end 'Eighties' and improved to Rs. 234 crore in 1990-91, almost doubled to Rs. 400 crore in the following year. By 1994-95, the value of exports peaked to Rs. 750 crores, recording an annual average growth rate of nearly 30 per cent during the first five year of the current decade. The auto parts exported include brake linings, engine values, piston rings etc. Major Indian auto component exporting companies are Motor Industries Company (MICO), Bharat Forge, Brakes India, Sundaram Fasteners, Bharat gears, Wheels India, gabrie India etc. The leading importing countries are Egypt, Malaysia, Saudi Arabia, Nepal,

Sri Lanka, Kenya, France, Germany, USA, Holland, Italy and Canada.[27]

TABLE NO. 5.7

EXPORTS : RISING TRENDS

Year	Export value (Rs. in crore)	As % of value of Production
1986-87	73.1	6.0
1987-88	96.6	6.3
1988-89	153.9	7.7
1989-90	200.00	8.6
1990-91	234.1	8.4
1991-92	400.0	11.8
1992-93	512.0	12.3
1993-94	630.0	12.1
1994-95	750.0	11.5

SOURCE: Kothari's Industrial Directory of India, Kothari Enterprises, Chennai, 1996-97, p. 8-6.

PRIVATIZATION IN AUTOMOBILE INDUSTRY

(i) Medium size Cars and Light Commercial Vehicles:

Late 'Eighties' opened up a new chapter in history of Indian automobile industry. A number of new

automobile manufacturing units were incorporated for medium sized cars and Light Commercial Vehicles. It took nearly three decades for the passenger car industry to take its next step forward. In the early 1980s, as a result of the oil crises, the automobile industry world over had to look inwards and reorient itself to the changes in product designs. So new manufacturing process technologies were evolved. These consequently led to an increased emphasis on weight reduction, optimum product design, appropriate quality and fuel efficiency. So, the Government decided to look up the manufacture of a 'peoples car' in public sector. With Japanese know-how and financial participation Maruti Udyog Limited (MUL) was incorporated on 24th February 1981[28] after taking over the assets of the erstwhile .Maruti Limited which was nationalised by an Act of Parliament in the Year 1980. The objective of the company was envisaged to employ modern manufacturing technology. It entered into collaboration agreement with M/s Suzuki Motor Corporation of Japan in October, 1982 for transfer of technology relating to passenger cars and light vehicles then in production in Japan. The production commenced in November 1983.[29]

MUL's origins can be traced to the bail-out it received (by way of nationalisation) in the wake of

Sanjay Gandhi's untimely death. It was concieved to takeover the assets of the abortive, yet loss-making, automobile venture started by this son of a former Prime Minister of India.[30]

The main objectives of the government in setting up MUL were modernization of the automobie industry, production of fuel efficient vehicles and to produce a modern car at a price affordable by more and more people. Skilled persons who were associated with Maruti Udyog alongwith the government took a decision to manufacture LCV and medium sized family cars, 50 per cent of whose production was to be exported. So, the government approached the leading manufacturers of Europe and Japan but, except for Renault of France, no one was ready to buy back 50 per cent of what was to be produced by MUL.

In September 1981 the MUL commissioned a market survey conducted by Indian Market Research Bureau (IMRB) to ascertain the kind of cars that the peoples are willing to buy.[31] The survey showed that majority of Indians wanted to buy car at a low price with minimum of maintenance cost, inexpansive and fuel efficient. There are basically three segments the small car segment represented by small engine capacity cars

such as Maruti-800, Omni,[32] for the medium class families in India. The other variant could be a model that will have a little more engine power raising its engine capacity by about 1000 CC. A Maruti spokes person admitted that different designs of the 800 model are being worked out. But he ruled out that the present engine capacity of Maruti 800 may be increased by another 100 CC,[33] 4-wheel drive Gypsy and 1000 CC3-Box car with different versions. The company also produces cars for handicapped and left hand drive (LHD) models of 800 CC car and Gypsy.

The Maruti 800 model holds more than 80 per cent of the car segment in India and still privilege of having a waiting list of about two-to-three weeks despite a number of automobile MNCs trooping into the Indian market.[34] The medium car segment consisting of semi-luxury cars priced at Rs. 2.5 lakhs to Rs. 3.5 lakhs, introduced some years ago such as, Premier 118NE, Contessa classic and standard 2000. The third is the large luxury car segment, comprising luxury cars with bigger engine capacity and modern technological features. These include models like Maruti Esteem, Maruti-1000, Maruti Zen, Tata Sierra and Tata Estate. Many reputed foreign car makers are also tieing up with Indian parties for introducing well-known models in the Indian Market.[35]

Sequentially, a joint Venture Agreement and Licence Agreement were signed with M/S Suzuki Motor Company Limited (SMC) of Japan on 2nd October 1982.[36] This agreement signed between the Government of India and Suzuki Motor Company (SMC), for licence and transfer of technology to Maruti Udyog Limited was upto 1992 but it was further extended.

MUL set up its Research and Development Division in 1986 for smooth and quick results. The major objectives of the R & D Division were as follows:[37]

(1) Absorption of imported technology.

(2) Production modifications to suit needs of Indian and overseas customers bringing about speedy indigenisation of components by transfer and absorption of technological know how.

(3) To undertake mandatory safety related and performance related testing know how.

The achievements claimed by the Research & Development (R & D) Division of the MUL during the past two years are as follows :[38]

(1) <u>New Product Developed</u> : The Gypsy was modified for increasing its treat for better stability during cornering at high speeds.

(ii) Launching of Zen in domestic market and also in export market after absorbing technology from Suzuki, Japan.

(iii) Introduction of 1300 CC engine on Maruti 3 Box Car for domestic market with upgradation of interiors etc.

(iv) National type approval was obtained for YE_2 model in Holland, U.K., Germany and Belgium.

(v) Suspension system was modified for Zen to suit Indian road conditions and driving habits.

(vi) Modification of Maruti 800 Left Hand Drive car to meet emission requirement as per EEC/91/441 (transitionary clause EEC/89/458) for extending life of Maruti 800 for export.

(vii) Adoption of compressed Natural Gas Kit on Maruti 800, Omni and Gypsy.

Equity Participation between Government of India and SMC:

In the very beginning, equity participation between government of India and SMC was decided 74 per cent and 26 per cent with Suzuki Motor Corporation (SMC). But during the 1990, the equity shares of the SMC was raised from 26 per cent to 40 per cent. 'Legal Status of Maruti Udyog Limited has changed w.e.f. 20.06.1992 from a Government Company to a company

without direct responsibility for management when Maruti alloted and issued 22,04,860 additional equity shares of Rs. 100 each to Suzuki Motor Corporation, Japan. With due aforesaid allotment and issue of shares to Suzuki, Government's equity has come down to less than 51 per cent in the total paid up capital of the company. The present share holding pattern of the corporation given in the following table :

TABLE NO. 5.8

PATTERN OF SHARE HOLDING IN MUL

Shareholder	Equity (Rs.)	% Share
Government of India	65,80,18,100	49.74%
Suzuki Motor Corporation	66,14,58,100	50.00%
MUL Employees Mutual Benefit Fund	34,40,000	0.26%
Total	1,32,29,16,200	100%

SOURCE: Public Enterprises survey, Government of India, Department of Public Enterprises, Ministry of Industry, New Delhi, 1990-91, Vol. 1, p. 90.

The Minister of Industries has asserted that under no circumstances Government's share of 49.74 per cent will be diluted.[39] Thus, MUL was privatised on

June 20, 1992, after the Expert Committee recommended to the Government to reduce its equity. At present, the equity held by the SMC is 50 per cent while the government holds 49.74 and MUL 0.26 per cent. The capital structure was decided with a debt equity ratio of 2.1:1 under the third plan, the expansion is likely to be financed through Rs. 700 crores of equity and Rs. 900 crores of debt. Out of this amount, Rs. 400 crores will be used to finance the modernization of the existing plants.[40] According to the original Joint Venture agreement, the clause can be invoked after one lakh vehicles have been produced by MUL or 10 years have lapsed - in addition Suzuki should have held the shares for a period of at least 4 years.[41]

Public Issue : MUL came out with a public issue of 1759500 Equity Shares of Rs. 10/- each at a premium of Rs. 60/- per share for the Indian Public on competitive basis and 6,50,000 Equity Shares of Rs. 10/- each at a premium of Rs. 70/- per share for the Mutual Funds/NRIs etc. on firm allotment basis. The issue, opened on June 14th 1995, was oversubscribed and the allotment was duly made on August 3rd, 1995 : As a result the paid up capital of the company increased to Rs. 607.01 lacs, as against Rs. 400.00 lacs last year. The shares are

listed on three Stock Exchanges, namely Mumbai, Delhi & Jaipur. The issue proceeds are being utilised for the purpose of constructing an integrated workshop in Patparganj (a locality situated at East of Delhi), The workshop would be the only workshop of its kind in the Region.[42]

Production of Cars :

Table No. 5.9 sets out figures of car production by Hindustan Motors, Premier Automobiles and Maruti Udyog Limited. It is clear from the table that the total production of Hindustan Motor Limited cars increased from 22017 in 1980-81 to 27710 in 1995-96 showing an overall increase of 25.857 per cent over year 1980-81 with the rate of growth of 2.76 per cent per annum. Similarly, Premier Automobile Limited cars increased from 9301 in 1980-81 to 20322 in 1995-96 showing an overall increase of 118.49 per cent over year 1980-81 with the rate of growth of 11.13 per cent per annum. It is also clear from the figures that Premier Automobile Limited is more dominant in the market than Hindustan Motors Limited. As far the Maruti Udyog Limited, its cars increased from 844 in 1983-84 to 268,756 in 1995-96 showing an overall increase of 31743.127 per cent over the year 1983-84

TABLE NO. 5.9

PRODUCTION OF CARS

Year	Hindustan Motor Ltd.		Premier Auto Ltd.		Maruti Udyog Ltd.	
	Nos.	% over previous year	Nos.	% over previous year	Nos.	% over previous year
1980-81	22017	-	9301	-	-	-
1981-82	22771	3.43	19764	112.50	-	-
1982-83	22646	- 0.55	20778	5.13	-	-
1983-84	24176	6.77	21456	3.26	844	-
1984-85	24641	1.93	28014	30.56	22481	2563.63
1985-86	23271	- 5.56	29265	4.47	49718	121.16
1986-87	23156	- 0.49	27457	- 6.17	73762	48.36
1987-88	26552	14.67	33556	22.21	90848	23.16
1988-89	28693	8.06	38743	15.46	98505	8.42
1989-90	28730	0.12	42314	9.22	108023	9.66
1990-91	25164	-12.41	42925	1.45	112827	4.44
1991-92	16043	-36.25	32563	-24.13	116697	3.43
1992-93	21848	36.18	15342	-52.89	121973	4.52
1993-94	25893	18.51	24718	61.11	149743	22.77
1994-95	26177	1.09	27213	10.09	198601	32.63
1995-96	27710	5.86	20322	-25.32	268756	35.32

SOURCE: Various Issues of Assocham Parliamentary Digest, Automobile Component Manufacturers Association of India (ACMA), New Delhi.

with an annual rate of growth of 239.79 per cent.

Lastly, the figures presented in the table also bring to light the fact that MUL, because of its light and fuel efficient models, has been capturing the market while the other two competitors are being religated to the background.

Market Share :

Table No. 5.10 presents figures with respect to the respective market shares of HML, PAL and MUL from 1980-81 to 1995-96. As will be seen from the table, upto the year 1983-84 Indian car market was dominated by HML and PAL makes. However, over the years the share of HML once a market leader, has come down from 70 per cent in 1980-81 to 8 per cent in 1995-96. Similarly, the share of Premier Automobiles, which once enjoyed as much as 49 per cent of the Indian car market has come down to merely 6 per cent. MUL entered the Indian car market in 1983-84 with a meagre share of 2 per cent. Over the years its share has gone up as much as 77 per cent in 1995-96. In fact, more and more people are preferring small, light and fuel efficient cars. It seems the new entrants fear to tread the path taken by India's 'number one' car manufacturers,

TABLE NO. 5.10

MARKET SHARE

	Hindustan Motor Ltd. (%)	Premier Auto-mobile Ltd. (%)	Maruti Udyog Limited (%)
1980-81	70	-	-
1981-82	53	45	-
1982-83	51	49	-
1983-84	52	N.A.	2
1984-85	33	46	30
1985-86	23	37	49
1986-87	19	29	59
1987-88	17	22	60
1988-89	17	23	59
1989-90	16	24	60
1990-91	14	24	62
1992-93	N.A.	N.A.	66
1995-96	8	6	77

SOURCE: Table prepared, in the present form, by the author by compiling figures from various issues of Assochem Parliementary Digest, ACMA, New Delhi.

Maruti Udyog Limited (MUL), which has flooded the market with its fuel efficient economically priced small family car. The possible reason for this seems to be a certain amount of risk involved in developing a new market which is presently a monopoly of market.[43]

Sale of Passenger Cars :

Table No. 5.11 sets out data regarding the sale of passenger cars. It will be seen from the table that the sale of passenger cars manufactured by Hindustan Motors Limited increased from 23021 in 1990-91 to 27730 in 1995-96 showing an overall increase of 20.46 per cent over the year 1990-91 with the annual rate of growth of 5.46 per cent. It is also evident from table that the total sale of Passenger Cars manufactured by Premier Automobiles Limited decreased from 42561 in 1990-91 to 20340 in 1995-96 showing an overall decrease of 52.209 per cent over the year 1990-91 with the negative rate of growth of sales of -- 8.75 per cent.

It is also clear from table that the total sale of passenger cars, manufactured by MUL increased from 111860 in 1990-91 to 267020 in 1995-96 showing an overall increase of 138.70 per cent over the year

TABLE NO. 5.11

PASSENGER CARS : SALES

Year	Hindustan Motor Ltd.		Premier Auto.Ltd.		Maruti Udyog Ltd.	
	Nos.	% over previous year	Nos.	% over previous year	Nos.	% over previous year
1990-91	23021	-25.01	42561	-	1118860	-
1991-92	17263	-25.01	30887	-27.43	118083	5.56
1992-93	21897	26.84	17388	-43.70	121620	2.99
1993-94	26149	19.42	25002	43.79	150929	24.09
1994-95	26131	- 0.07	27206	8.82	198930	31.80
1995-96	27730	6.12	20340	-25.23	267020	34.23

SOURCE: Assochem Parliamentary Digest, ACMA, New Delhi.

1990-91 with the annual rate of sale of 19.734 per cent.

Production of Utility Vehicles (JEEPs):

Presently, there are two major units producing jeeps in the country, viz. Mahindra & Mahindra Limited (M&M) and Maruti Udyog Limited.[44] Mahindra & Mahindra is a pioneer in Jeep industry of the country. The total production of utility vehicles numbering 11,010 during 1976 increased to 67643 in 1995-96 recording a rise of

514.37 per cent over 1976. It is clear from the table 5.12 that the total production of Jeep, manufactured by M&M Limited increased from 27368 in 1990-91 to 58623 in 1995-96 showing an overall increase of 114.20 per cent over the year 1990-91 with the rate of growth of 17.87 per cent per annum. It is also evident from the table that the production of Jeeps, manufactured by MUL, decreased from 10001 in 1990-91 to 9020 in 1995-96 showing an overall decrease of 9.81 per cent over the year 1990-91 with the rate of growth of 2.52 per cent per annum. Therefore, the Mahindra & Mahindra dominated the market as compared to Maruti Udyog.

Sales of Utility Vehicles :

Table No. 5.13 deals with figures of total sales of Jeeps, manufactured by Mahindra & Mahindra Limited and Maruti Udyog Limited. The sale of M&M Jeeps increased from 27248 in 1990-91 to 57387 in 1995-96 showing an overall increase of 110.60 per cent over the year 1990-91 with an annual rate of sales of 16.88 per cent. The sales of M&M Jeeps has, thus, shown an increasing trend. It is also evident from the table that the total of Maruti's products decreased from 8675 in 1990-91 to 8582 in 1995-96 showing an overall decrease of 1.07 per cent over the year 1990-91 with annual rates of sales of 1.45 per cent. Thus, the demand of M&M Jeep is higher than Maruti Jeep.

TABLE NO. 5.12

PRODUCTION OF UTILITY VEHICLES

Year	Mahindra & Mahindra		Maruti Udyog Limited	
	Nos.	% over prev. year	Nos.	% over prev. year
1990-91	27368	-	10001	-
1991-92	26307	- 3.88	5194	-48.06
1992-93	33247	26.38	6029	16.07
1993-94	43799	31.74	6037	0.13
1994-95	42328	-38.49	7347	21.69
1995-96	58623	38.49	9020	22.77

SOURCE: Assocham Parliamentary Digest,ACMA,New Delhi.

TABLE NO. 5.13

SALES OF UTILITY VEHICLES(JEEPS)

Year	Mahindra & Mahindra		Maruti Udyog Limited	
	Nos.	% over prev. year	Nos.	% over prev. year
1990-91	97248	-	8675	-
1991-92	28303	3.87	6568	-24.29
1992-93	92620	15.25	5610	-14.59
1993-94	43207	32.46	6243	11.28
1994-95	43225	0.04	7725	23.74
1995-96	57387	32.76	8582	11.09

SOURCE: Assocham Parliamentary Digest, ACMA, New Delhi.

Industry Structure :

Three distinct segments are visible in the industry. The largest is the small car segment (approximately 60 per cent of industry sales) comprising a single manufacturer, Maruti, with its 800 CC car and Van priced around Rs. 0.2 million. The Premier Padmini (from Premier Automobiles) and the Ambassador (from Hindustan Motors) make up the medium segment (below 20 per cent of industry sales) with a price range of between Rs. 0.2 to 0.3 million, followed by the luxury car segment priced at a over Rs. 0.3 million. Maruti, with its two models in the small car segment, dominates the industry with a 72 per cent market share[45] and currently its percentage has increased to 80 per cent.

Two companies manufacture Jeeps in the country. Mahindra & Mahindra (M&M) dominates with a market share of 87.4 per cent followed by Maruti with share of 12.6 per cent, M&M's dominance in the Jeep market is attributed to its diesel - powered vehicles.[46]

ORGANIZATIONAL STRUCTURE OF MARUTI UDYOG LTD. (MUL) :

For efficient running of any organisation its 'organisation structure' has its own importance because

it pinpoints duties, responsbilities and authority of various persons and creates a sense of consciousness among them. According to George Terry, 'Organization structure is a diagrammatical form which shows important aspects of an organization including the major functions and their respective relationship, the channel of supervision and relative authority of each employee who is incharge of each respective function.[47] According to Allen A. Louis, organization is the process of identifying and grouping the work to be performed, defining and delegating the responsibility and authority and establishing a pattern of relationship for the purpose of enabling people to work most effectively to accomplish the objectives of an industrial organization.[48]

Usually, it is the Board of Directors which is responsible for the day-to-day functioning of an organization for attaining its ultimate goals. As in any other industrial concerns, Board of Directors of MUL is the top administrative organ as well as the Supreme policy making body of the company. The directors hold responsibility for management. First directors are appointed by the Promoters and their names are mentioned in the Articles of Association. Subsequently, they are elected by shareholders at the

Annual General Meeting of the company.* The present size of MUL board is nine of which six are full time directors while three of them are part-time. The Chairman of the Board is appointed by the Government of India who also acts as part-time director of the company. Two other part time directors are secretaries of the Ministry of Finance and Ministry of Heavy Industry (Department of Public Enterprises) respectively.

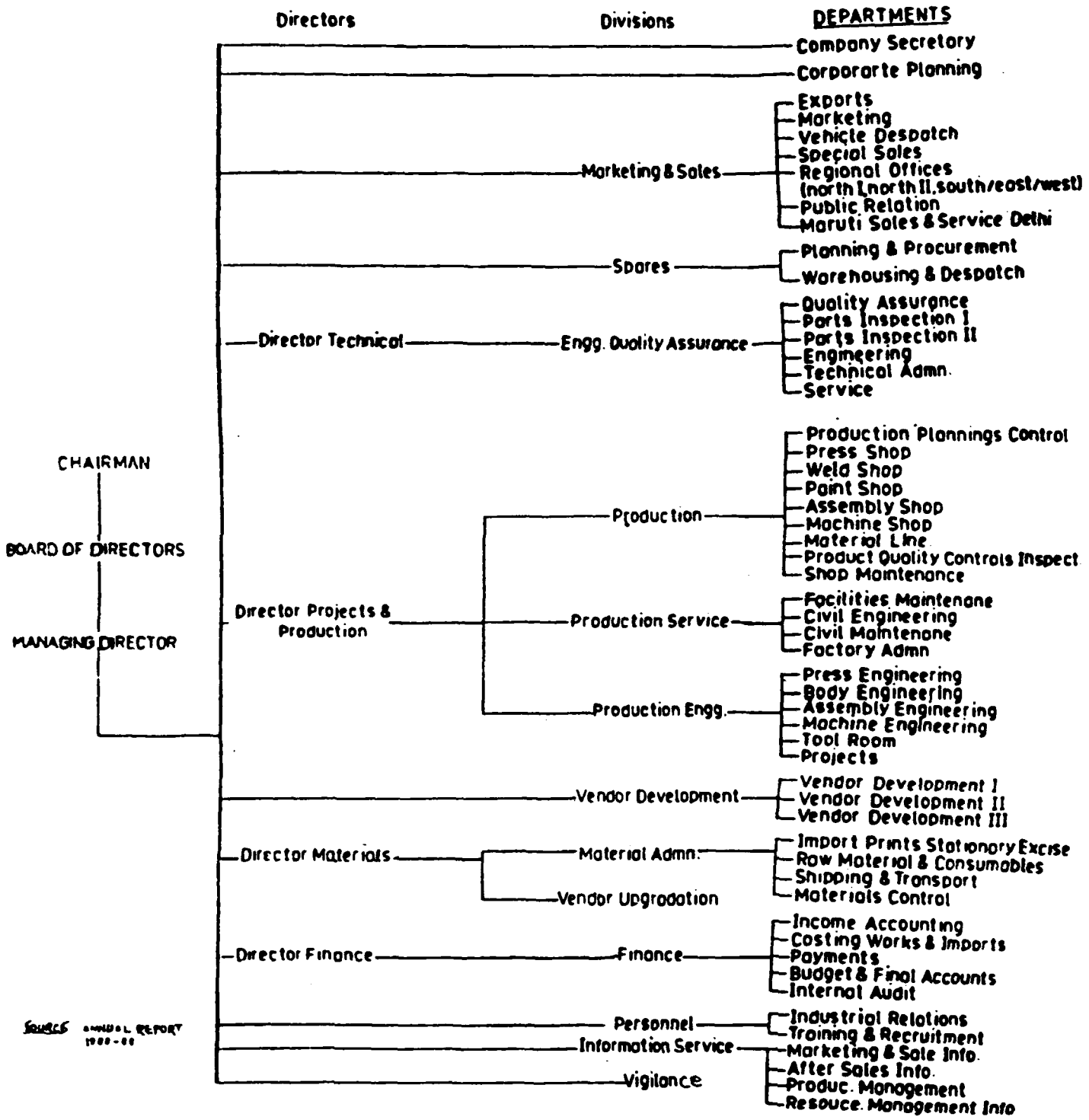
It is clear from Chart 5.1 that one of the six full time directors is representative director of the SMC and other directors are director of production, director of material, director of technical, director of finance etc. The Managing Director is Chief Executive of the company who is also supreme authority. He is assisted by the aforementioned four directors who, in turn, are assisted by twelve Divisional Heads directly or indirectly in routine matters. The Managing Director is having all powers authorized by board and is responsible for all important policy matters such as production, marketing, sales, quality control, vendor upgradation, employees welfare schemes etc. There are thirteen main divisions, five of which are reporting directly to the Managing Director while the rest eight Divisional Heads report to their respective Directors.

*As per the 1992 agreement signed between Government and SMC the joint venture partners had agreed on SMC first exercising the right to have its nominee as Managing Director and the Government opting to name its candidate as chairman. After the completion of five years the Government was empowered to nominate its candidate as Managing Director followed by SMC having its candidate as non-executive chairman. (Hindustan Times New Delhi, 30 August, 1997).

Chart No-5.1

MARUTI UDYOG LIMITED

ORGANISATION STRUCTURE CHART



SOURCE ANNUAL REPORT 1988-89

Thus, the Managing Director is to be helped by four Directors, thirteen Divisional Managers and fifty five Departmental Managers and one company Secretary.

The Director of technical matters is assisted by one Divisional Manager and four Departmental Managers. Similarly, the Director of Projects & Production is to be helped by three Divisional Managers viz. Production Manager, Production Service Manager and Production Engineering Manager, The Production Divisional Manager is to be helped by Departmental Managers of Production, Planning, Control, Press Shop, Weldshop, Paint Shop, Assembly Shop, Machine Shop etc. The Divisional Manager of production service is to be helped by Departmental Managers of facilities maintenance and operations, civil engineering, civil maintenance, and factory administration. The production Engineering is to be helped by Press Engineering, Body Engineering, Assembly Engineering, Machine Engineering, tool room and projects. Similarly the director of material is to be helped by three Divisional Managers, viz., vendor development, material administration and vendor upgradation. The vendor development manager is to be helped by three Departmental Managers. The material administration manager is to be helped by four

Departmental Managers. Similarly, the Director of Finance is to be helped by one Divisional Manager who is assisted by five Departmental Managers. Thus, each and every Director of the Board of Directors is assisted by a number of Divisional Managers and Divisional Managers are assisted by each Departmental Manager and onwards.

In general, a division is divided into a number of departments and department consists of one or more than one deputy manager. Under him there are two or more than two senior executives, and also two or more than two junior executives, one private secretary and a numberof supervisors. The number of the supervisors depends upon the size and function of the department. The production areas have more supervisors than non-production areas. Below the supervisor there are technicians and clerical staff. It will be observed from foregoing discussion that there is no set quota for a department and that a particular department needs so much staff below the manager. Below the departmental manager,it is very difficult to categories and classify the employees in the company. All employees are categorised between L01 L020. L020 stands for Managing director (M.D.) while L01 & L02 stand for unskilled

personnel and remaining employees fall between L03 to L019. 'The company has its Registered office in the Union Territory of Delhi and plant at Gurgaon (Haryana). The company is also having its Regional Offices in Mumbai, Calcutta, New Delhi, Chennai and Chandigarh and other offices in Kandla and Nhava Sheva.

Pursuant to the Provisions of Section 309 of the Companies Act and Article 121(2)(ii) of the Company's Articles of Association, the Directors of the Company (other than a Managing Director, and a Director appointed as a whole-time Director) are entitled to receive a commission up to one per cent of the net profits of the company computed in the manner referred to in Section 98(1) of the Companies Act 1956 in any financial year for a period of 5 years commencing 1st April 1996.[49]

It is a primary aspect for a company to achieve more for the development of a country's economy. The achievements of MUL are categorised into several categories, as follows :

PRODUCTION :

It is clear from Table No. 5.14 that higher growth rate in production in the year 1984-85 was the

result of the fact that masses had become fed up with existing models having outdated technology. As such, production increased to 277776 vehicles in 1995-96 against 852 vehicles in 1983-84 showing an overall rise of 32502.816 per cent over the year 1983-84 with a rate of growth of 237.51 per cent per annum. The percentage of growth rate in production was lowest in 1991-92 showing a decrease of -0.762 per cent over previous year.

TABLE NO. 5.14

PRODUCTION OF VEHICLES IN NUMBERS

Year	Production	% increase/decrease over previous year
1983-84	852	-
1984-85	22372	2525.82
1985-86	51580	130.55
1986-87	80150	55.38
1987-88	92630	15.57
1988-89	105547	13.94
1989-90	117400	11.23
1990-91	122828	4.62
1991-92	121891	- 9.762
1992-93	128002	5.01
1993-94	155780	21.70
1994-95	277776	34.87

SOURCE: 1. Compiled from various issues of PE surveys.
2. Financial Express, New Delhi, April 2, 1990.
3. Assocham Parliament Digest.
4. ACMA.

SALE :

The sales of the company increased to 2,75,411 units in 1995-96 against 22048 units in 1984-85 which works out to an increase of 1149.142 per cent over the year 1984-85 with an average rate of growth 29.36 per cent as seen from Table No. 5.15 given below :

TABLE NO. 5.15

SALES OF VEHICLES IN NUMBERS

Year	Sales	Growth % over previous year
1984-85	22048	-
1985-86	47694	116.32
1986-87	82308	72.58
1987-88	94033	14.25
1988-89	105592	12.29
1989-90	117335	11.12
1990-91	120802	2.95
1991-92	122438	1.35
1992-93	127230	3.91
1993-94	160132	25.86
1994-95	205987	28.63
1995-96	275411	33.70

SOURCE: Same as for Table 5.14.

As will be clear from the figures, the lowest percentage growth of sale was 1.35 per cent in 1991-92 while highest growth was 116.32 per cent in 1985-86 over the previous year.

The company sold over 15900 MUL vehicles (All Models) during 1995-96 which formed 6.4 per cent of the total domestic sales of Maruti Udyog Ltd. It is indeed a matter of pride that company sold the highest number of vehicles for the fifth consecutive year in a row of all the dealers of Maruti Udyog Ltd. in the country. The company has once again bagged the award for 'BEST DEALER' for sale of maximum number of cars (all Models) & spare parts, from Maruti Udyog Ltd. for the year 1995-96. The company has also received a special award from SUZUKI Motors Corporation, Japan, in appreciation of its contribution to the overall achievements.[50]

Table No. 5.16 shows the growth of export earnings by the MUL between 1986-87 to 1995-96. It is clear from table that MUL had started its exports in 1986-87 by exporting 102 vehicles and touched the figure of 26,103 vehicles in 1995-96. Showing a rise of 25491.176 per cent over the year 1986-87. The export of 22,921 vehicles, during 1991-92 registered an increase of 367 per cent over the year 1990-91. Out of this,

TABLE NO. 5.16

EXPORT OF MARUTI VEHICLES

Year	Vehicles	Rs.in crores
1986-87	102	0.55
1987-88	713	3.62
1988-89	1408	9.46
1989-90	5100	41.37
1990-91	-	61.82
1991-92	22921	244.58
1994-95	3200 (First quarter)	-
1995-96	26103	3731

SOURCE: 1. Annual reports of various years.
2. Day after (monthly), New Delhi, May 1990, p. 58.
3. Public Enterprises Survey, Bureau of Public Enterprises, Govt. of India, New Delhi, 1995-96.

21,881 vehicles were sold to the competitive markets of Europe. Exports to Italy, Yugoslavia, Hungry and Portugal showed considerable increase. In addition, repeated orders were received from Australia, Mauritius, Tanzania, France, Malta and other countries.

The company achieved an export of 26,103 vehicles of the value of Rs. 3731 crores. The Suzuki

Auto (Zen) was launched in 19 new countries including Italy, Denmark, France, Portugal, Australia and Chile. The Suzuki Auto was rated the best car in its category in the Netherland's market. Ten new markets were developed during the year 1995-96 for exports.

PROFIT AFTER TAX (PAT) : The profit is the backbone of any company. The data set out in Table No. 5.17 indicate that the Maruti Udyog Limited (MUL) posted profit after taxt (PAT) from 1983-84 to 1996-97 except for the years 1992-93 and 1993-94. It is also clear from the table that the percentage growth rate moved up and down during these years. It is also seen that PAT has increased to Rs. 501 crores in 1996-97 against Rs. 1.7 crores in 1983-84 showing an overall rise of 29370.588 per cent over the year 1983-84. The percentage of growth rate in PAT was lowest in 1984-85 showing a decrease of -47.05 per cent while it was higher in 1986-87 showing an increase of 240 per cent over previous year.

The company earned net profit of Rs. 29.07 crores during 1991-92 as against Rs. 48.33 crores in the previous year. The decline in profit was on account of sharp fall in the value of rupee required to buy

TABLE NO. 5.17

PROFIT AFTER TAXT (PAT) OF MUL IN DIFFERENT YEARS

(Rs. in crores)

Year	Retained profits	% growth over previous years
1983-84	1.7	-
1984-85	0.9	47.05
1985-86	3.0	233.33
1986-87	10.2	240.00
1987-88	18.4	80.39
1988-89	20.8	13.04
1989-90	40.00	101.92
1990-91	48.33	15.07
1991-92	20.07	-39.85
1994-95	448	-
1995-96	428	-4.46
1996-97	501	17.05

SOURCE: 1. Public Enterprises Survey, Bureau of Public Enterprises, Ministry of Industry, Government of India, New Delhi, various issues.

2. Annual Report of MUL 1988-89.

3. The Financial Express, New Delhi, April 1, 1997, p. 1.

Eximscrips to make imports, needed to provide margin money for imports and increasing inflation. Due to recession in passenger car industry domestic sale of vehicles was about 14 per cent lower than domestic sales in the previous year. Also, the company earned net profit of Rs. 427.65 crores during 1995-96 as against Rs. 447.60 crores in the previous year. The production registered an increase of 34.6 per cent from 206330 vehicles in 1994-95 to a record of 277776 vehicles in 1995-96

The PAT posted by MUL of Rs. 501 crores for 1996-97, shows an increase of 17.05 per cent over the PAT of Rs. 428 crores for the previous year.

MUL's profit before tax (PBT) increased to Rs.801 crores in 1996-97 showing an increase of 23 per cent from Rs. 652 crores in 1995-96. Total income of MUL was Rs. 7,916 crores, an increase of 18 per cent as compared to Rs. 6,685 crores in the previous year. Sale of vehicles by MUL increased from 2,75,411 in 1995-96 to 338,690 in 1996-97 showing an increase of 23 per cent. However, competition is on the increase and MUL cannot sit idle and be complacent on its past performance. Mr. R.C. Bhargava managing director was right when he remarked 'there was a great degree of

concern on how the year 1996-97 would turn out for MUL. Competition was increasing and there were apprehensions on how we will survive in the market.'[51]

TABLE NO. 5.18

ACTUAL PRODUCTION OF MARUTI VEHICLES

Year	Production (Y)	Taking deviations from 90(X)	XY	X^2
1984	852	-6	-5112	36
1985	22372	-5	-111860	25
1986	51580	-4	-206320	16
1987	80150	-3	-240450	9
1988	92630	-2	-185260	4
1989	105547	-1	-105547	1
1990	117400	0	0	0
1991	122828	1	122828	1
1992	121891	2	243782	4
1993	128002	3	384006	9
1994	155780	4	623120	16
1995	205948	5	1029740	25
1996	277776	6	1666656	36

$N = 13$, $\Sigma Y = 1482756$ $\Sigma X = 0$, $\Sigma XY = 3215583$, $\Sigma X^2 = 182$

$$\Sigma Y = N\,a + b \sum X \text{ ----- (i)}$$

$$\Sigma XY = a \sum X + b \sum X\,2 \text{ ----- (ii)}$$

$Y = a + bx$ ------- (iii)

$a = \frac{\Sigma Y}{N}$ From equation (i) After putting the value of $x = 0$

$a = \frac{1482756}{13} = 114058.15$

$b = \frac{\Sigma xy}{\Sigma x2}$ From equation (ii) after the putting value of $x = 0$

$b = \frac{3215583}{182} = 17668.038$

$a = 114058.15, \quad b = 17668.038$

$y = 114058.15 + 17668.038\ x$

It is the equation of straight line. By putting the values of X (7,8,9,10,11,12,13,14.15) we calculate estimated production of MUL from 1997 to 2005 as given below :

It is clear from Table No. 5.19 that the estimated production of Maruti vehicles will be 379079 units in 2005 as against 237734 units in 1997. It means an increase of 59.455 per cent over the year 1997 and a growth rate of 6 per cent per annum. But as time will come, the rate of growth of Maruti vehicles in

TABLE NO. 5.19

ESTIMATED PRODUCTION OF MARUTI VEHICLES (EXTRAPOLATED)

Year	Production (in Numbers)	% growth rate of estimated production
1997	237734	-
1998	255403	7.43
1999	273071	6.91
2000	290739	6.47
2001	308407	6.07
2002	326075	5.72
2003	343743	5.41
2004	361411	5.13
2005	379079	4.88

production is likely to shrink because of a large number of other competitors with their fuel efficient vehicles that will be available at more economical prices. But the number of Maruti Vehicles will increase year by year due to increase in demand.

TABLE NO. 5.20

ACTUAL SALES OF MARUTI VEHICLES 1985-1996

Year	Sales (Y)	Taking deviation from 90.5(X)	2X	XY	X^2
1985	22048	-5.5	-11	-242528	121
1986	47694	-4.5	- 9	-429246	81
1987	82308	-3.4	- 7	-576156	49
1988	94033	-2.5	- 5	-470165	25
1989	105592	-1.5	- 3	-316776	9
1990	117335	0.5	- 1	-117335	1
1991	120802	0.5	1	120802	1
1992	122438	1.5	3	367314	9
1993	127230	2.5	5	636150	25
1994	160132	3.5	7	1120924	49
1995	205987	4.5	9	1853883	81
1996	275411	5.5	11	3029521	121

N = 12 ΣY = 1481010 ΣX = 0, Σxy = 4976388. Σx^2=572

$$\Sigma Y = Na + b \Sigma x \quad \text{---- (i)}$$

$$\Sigma xy = a \Sigma X + b \Sigma X^2 \text{----- (ii)}$$

$$Y = a + b\,x \text{ --------- (iii)}$$

$a = \frac{\Sigma Y}{N}$ From equation (i) after the putting value of $\Sigma x = 0$ than we have got..

$$a = \frac{1481010}{12} = 123417.5$$

$b = \frac{\Sigma xy}{\Sigma x^2}$ From equation (ii) after the putting value of $x = 0$ than we have got

$$b = \frac{4976388}{572} = 8699.979$$

$$Y = 123417.5 + 8699.979\ x \text{ ----------(iv)}$$

It is the straight line equation which we get after putting the value of x and y in equation (iii) by putting the values of x (13, 15, 17, 19, 21, 23, 25, 27, 29) in equation (iv) we calculate estimated sales of MUL from 1997 to 2005 as given below :

It is clear from Table No. 5.21 that the estimated sales of Maruti Vehicles will increase to 375717 vehicles in 2005 against 236517 units in 1997. It means an increase of 58.854 per cent over the year 1997 and a growth rate of 5.958 per cent per annum. But with the passage of time the rate of growth of sales of

TABLE NO. 5.21

ESTIMATED SALES OF MARUTI VEHICLES (EXTRAPOLATED)

Year	Sales	% growth of estimated sales
1997	236517	-
1998	253917	7.356
1999	271217	6.852
2000	288717	6.413
2001	306117	6.026
2002	323517	5.684
2003	358317	5.103
2005	335517	4.856

Maruti vehicles is likely to shrink though its figures of sales will increase year by year. It will be due to the fact that with the induction of several new technologies, component suppliers are likely to face problems of standardisation. It will also be due to the fact that product quality could pose problem since very often production depends on old and obsolete plants bought from international suppliers. There is also a possibility of domestic components being increasingly

substituted by imported components.

Thus, when the production as well as sales both of MUL will marginally come down in the years to come, they will leave an adverse effect on profit also. In the ultimate analysis, MUL will have to face cut-throat competition from other international competitors* who are likely to offer their fuel-efficient vehicles at more economical prices.

OVERALL : The company commissioned Blanking lines in December, 1991 by which steel can be imported in the form of coils and converted into blanks. The company entered into a joint venture with M/s Ford Motor Company to make Aluminium Radiators. The company has started implementing the project for expanding production capacity to two lakhs units a year. Orders for equipments are being placed to create an additional production capacity of 70,000 units. A new model car (YE2) which has been designed by BMC to conform to the EEC standards applicable from 01.01.1993 will be produced in India and shall be sold to Europe and elsewhere through SMC's marketing channels. With the introduction of YE2 in 1993, the entire European market will be available for sales.[52]

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* TELCO, Daewoo, Toyota, among others - are drawing up plans to enter the segment, and it is expected that by 1998 some of these cars will be on the roads.

The company has also obtained ENISO 9002:1994. Quality system certificate, Granted AIB VINCOTTEINTER (A non-profit Association & Member of EQNET) having its Headquarters at Brussels, Belgium on February 5, 1996. The certificate is from one of the prestigious ISO 9000 series. The certificate represents a model for quality assurance in production, installation & servicing, for sale of Maruti Vehicles, Maruti Genuine spares and servicing of Maruti range of vehicles manufactured by Maruti Udyog Ltd., under collaboration from SUZUKI Motor Corporation, Japan.[53]

Though Maruti Udyog Ltd.'s board gave it the go ahead to begin work on a third plant for one lakh vehicles near its existing site at Gurgaon over a fortnight ago, it is unlikely that Suzuki will put in its share of the Rs. 1,100 crore required for the plant unless it is given control of the company's board.[54]

PERSONNEL POLICY OF MUL :

The personnel policy is one of the primary functions of an organisation's management. Its aim of purposeful and effective personnel policy is to create and maintain a committed and disciplined personnel for

the organisation. Also its aim is to create wide opportunities for advancement within the organisation. By giving encouragement to good workers, by stimulating action in the recruits of basic grades and by motivating individuals to stay in the organisation for a long period, the personnel policy of MUL has been very successful so far. The component parts of MUL's personnel policy are as follows :

(i) Manpower Deveopment
(ii) Recruitment
(iii) Promotion
(iv) Training
(v) Performance Appraisal
(vi) Working Conditions
(vii) Welfare facilities and amenities.

(i) **MANPOWER DEVELOPMENT** : The employees are primary organ of an organisation. Without these, other resources can not be effectively geared for achieving organisational goals. It is also a fact that productivity of man depends largely on motivation and proper training. A consistent effort was made by the MUL to meet the employees expectations through incentives and facilities. As will be seen from Table No. 5.22, given below, the number of employees increased to 4968 in

1995-96 as against 883 in 1983-84 showing an increase of 462.627 per cent over the year 1983-84. In fact, the number of employees are increasing day by day due to expansion of working load in the organisation.

TABLE NO. 5.22

NO. OF EMPLOYEES IN MUL

Year	No. of Employees
1983-84	883
1984-85	2176
1985-86	2815
1986-87	3497
1987-88	3526
1988-89	3629
1991-92	3993
1993-94	4588
1995-96	4968

SOURCE : 1. Various issues of Public Enterprises Survey.

2. Annual Report of MUL, 1988-89.

(ii) **RECRUITMENT** : The posts of Technicians, Supervisors and Executives filled up by the direct recruitment and promotion of employees already in the service of the organisation are made internally.

(iii) **PROMOTION** : It is of the individual to a job of higher position involving a charge of duties with a difficult type of work, greater responsibility and change of title and usually an increase in pay. The MUL acts upon the following principles for promotion :

(a) Promotion should be done solely on the basis of merit.

(b) Promotion is based on punctuality, efficiency and behaviour of the employee.

(c) Officers committee consisting of not less than three officers, recommends promotion of employees after analysing the performance by using performance appraisal form. In each case the committee should record in writing the grounds on which claims of person or persons if any, senior to the persons selected, were over looked.

(iv) **TRAINING** : It is a device for the knowledge and skill of people for a definite purpose and systematical

work. Persons connected with all types of jobs in the organisation usually require some type of training for their efficient performance. It is primary chapter for newly appointed employees in an organisation. Without its systematic programme of training, employees' talents are not fully developed. Systematic training is always necessary because of constant technological changes which take place with the passage of time.

The MUL has adopted Japanese technology. So, it is necessary to provide a special programme of initial training and education for newly appointed employees. Every trainee is exposed to production and to the function in every other department during a period of about six months. The training process is on the basis of lectures given by Japanese work culture as well as company executives (by the executives). The next six months are spent on, 'on the job training' depending upon the availability of vacancy and choice of the candidate. On the job training (OJT) is respected through formal class room training. Exposure is very important element during the period of training in the MUL. The MUL has organised a programmes for reinforce Maruti Culture and to promote the Quality Circle Movement during the house training. Technical

Training includes industrial engineering, manufacturing quality control, statistical analysis, computer programming etc. It is continuously offered to all levels of employees. The programmes of training of employees at the works of SMC in Japan also continues.

(v) **PERFORMANCE APPRAISAL** : The performance appraisal is a tool to measure relative worth or ability of an employee in performing his task. In MUL, performance appraisal of an employee is done by a committee consisting of not less than three members which include: (i) The immediate supervisor of the employee called initiating officer, (ii) The next superior called Reviewing Authority, (iii) One or more officers who are considered competent to assess the worth of the employee, i.e. recommending authority.

In fact, two appraisals are conducted by the organisation one of them in January for the purpose of giving increments and promotions and the other in July for the purpose of counselling to its workers. The performance appraisal is divided into two parts. Part I deals with the performance of the employees during the year while Part II deals with the potential and capability of the individuals and kept confidential. Part I includes skill, knowledge, quality of work,

quantity of work and discipline and discussed with the employee in a free and frank manner by the initiating officer.

The MUL does not have any transfer policy. However a permanent employee can resign from his job but for doing so he has to give a three months prior notice to the organisation.

(vi) **WORKING CONDITIONS** : It is an important factor in a company for the efficiency and satisfaction of employees. In MUL, working day is six days in week with three full shifts. The effective work shift is of 7 hours 45 minutes excluding half an hour for launch and two seven and a half minute rest periods. The MUL, has provided sufficient space to every employee for performing his/her work easily with comfort. The MUL also provides essential requirements such as suppresses dust levels, improve aesthetics and land escaping to every employee for effective and scientific work.

(vii) **WELFARE FACILITIES AND AMENITIES** : The welfare facilities and amenities both are mainly as follows :

Facilities :

The employees of MUL are entitled to get medical as well as reimbursement of expenses incurred

by any employee only on production of bills. This is done through a systematic channel of Doctors/shop clinical labs / x-rays and clinics established by the company. Dispensary-cum-first aid centre with adequate number of highly skilled Doctors provides the necessary treatment to the sick employees. Ambulances are made available in need of hour to shift the patients to hospital so that the patients may very soon overcome the fatal disease.

Canteen : A canteen with all modern amenities is established within the periphery of the company to serve the employees with subsidised meals at a uniform pattern. The canteen plays a very vital role in nourishing the physical as well mental capabilities of the employees.

Advance for Vehicle : The company also grants conveyance advances in terms of loans to its employees for purchasing the sophisticated vehicles which provide the necessary comforts to the employees. These loans are repayable in monthly, half yearly or annual instalments.

Washing Allowances : The allowance is made available to all the employees. This allowance helps the employees

keep the uniform neat and clean and causes a daazling reflection of the presence of employees within the premises of the company.

Creche Facility : The company has also established a creche with in the premises of the company to facilitate the women employees having small children or kids.

Education : The company provides better educational facilities for the children of their employees so that they can plan their career. Maruti provides education facilities to the children of its employee in two good schools in Delhi and Gurgaon.

Attendance Bonus : Every sincere and industrious employee is entitled to entertain an extra cash for full or nearly full attendance record. This bonus reflects the sincerity of its employee.

Leave Encashment : The company pays wages to its employees for the utilization of leave for company work at the end of every year.

Conclusively, it may be observed that the efficient utilization of adequate resources related to

production, productivity, profits, ample contribution to government's exchequer etc. has always been one way the MUL is seeking to discharge its debt to the nation. MUL always thinks for the betterment and welfare of its employees by providing substantial amenities and facilities. It provides several incentives to its employees for their hard work, courtesy and loyality towards the organisation and never ignores the demanour exhibited by its employees.

Problems of Maruti Udyog Limited :

The MUL failed to achieve its own projections to produce a small family's car due to some problems which are mainly as follows[55] :

(i) **Entry of new Dealers** : Entry of four more dealers of Maruti Udyog Ltd. in Delhi.

(ii) **Entry of new Manufacturers** : Due to the entry of new Manufacturers, Maruti dealers were compelled to give substantial discount on sale of Esteem.

(iii) **Delay** : Delay in implementation of project is due to intervention of DDA under urban ceiling Act. However, Hon. Delhi High Court ordered on May 27, 1996 for settlement of the matter within 60 days.

(iv) **Indigenisation** : So far, the MUL failed to achieved its indigenisation target. Low level of indigenisation is major problem of the organisation because all other problems are adjoined directly or indirectly with indigenisation. The MUL does not have command over the domestic ancillary industries to secure supplies of components and equipments of reasonable quality. Indigenisation targets were not achieved by the company due to non-supply of domestic parts in conformity with specifications.

(v) **Lack of Well-Developed Vendors** : The Vendors play an important role in developing an organisation because development of organisation largely depends on their efficiency. It means that both of them are correlated. The company is facing some problems to locate and to select competent vendors. There is strict criteria in all areas to select vendors, no vendor would be able to qualify and the attainment of indigenisdation would be unfeasible. Its vendors have failed to supply the components in time with quality specification as required by the MUL. The vendors are unable to maintain total consistently of quality over large numbers and over tended periods of time and they are incapable of reaching the targets fixed by the company. Since

vendors are backbone of the company, it is necessary for the company to improve its vendors through additional incentives and other facilities for the company development.

(vi) **Low Level of Production** : In the very beginning, during 1984-85 and 1985-86, the MUL was not able to achieve its fixed targets in production due to lack of component suppliers, skilled employees, old modal of technology etc. However, production of MUL was raised to 80150 units against the fixed target of 80000 units in 1986-87. In 1987-88 again the production target was fixed at 100000 units but actual production was 92,630 units. Thus, the trend of MUL production has been varying up and down due to component shortages. It is, therefore, advisable that the MUL should keep necessary stocks for meeting the shortages in components in order to ensure scheduled supply. Of course, it will result in some extra cost to the company. But definitely it will be less than the accumulated looses due to conveyor stoppages.

(vii) **Quality** : Quality is the summation of all the activities which occur in selling products and services. The MUL has always been endeavouring to maintain high quality standards in their products but

several times failed to make the endeavour bear fruits and hence the quality of products produced by MUL is declining. This decline is eschewing the dazzling performance of MUL. The indigenous components due to their inaccuracy and indurability relatively to those of Japan results in declining standard of products. The only remedy to eradicate this decline completely is to develop the entire auto-ancillary industry of the country. Plants, equipments and manufacturing methods must be selected as per international standards of performance for the establishment of such industry. Highly skiled employees must be selected and proper training facilities must be made available for all the employees so that they can perform their best. They should be taught how to deal with modern management system and achieve the quality. The sophistication of management at all levels should be enhanced. A morable boostup among the employees as a team member must be introduced.

(viii) **Tax Structure** : Though the government has taken several stringent steps to help MUL meet its requirements but still all its efforts are futile. The highly volatile tax structure with mid-year and annual increase in customs and excise duty has made the MUL

vulnerable. The continuous appreciation of Yen and increased input costs have made the manufacturers struggle for financial viability. Taxes as custom duties on capital goods etc. constitute two-thirds of total price. Tax burden is a considerable hindrance to its milestone and has crippled the industry. It has, indeed, inversely weaken all the strategies of the industry. The company needs a comprehensive and clear-cut policy from the government that would reduce tax burden and provide special concessions to those enterprises which are working above hundred per cent capacity utilisation and hundred per cent indigenisation. The government must reduce duties and taxes on imported machinery required for modernising and developing the auto-ancillary industry. The government should also clear all those projects which will not harm the country's foreign exchange position, the industry should be allowed to meet its foreign exchange by exporting its products.

Future Prospects of Indian Automobiles Industry :

A major achievement of the component or ancillary industry is that Indian entrepreneurs have made remarkable strides in product localisation. This import substitute-led model has today resulted in an

industry output of Rs. 6500 crores (in 1994) with an asset base of Rs. 2,800 crores and an employee force of nearly two lakhs. As regards quality levels of the industry, while a sea change has taken place with the advent of Maruti Udyog it is still a far cry from the expectations of the global players targeting India, the Mercedes, the Fords and the Vokswagons. The extrapolated demands on the auto component industry would mean a turnover of about Rs. 2,000 crores by the year 2000 with a capital outlay of around Rs. 9,000 crores.[55] According to the Automotive Component Manufacturers Association (ACMA), export of auto components industry is projected to increase to Rs. 18,000 million in 1999-2000.[56]

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CHATPER- VI

SUMMARY AND CONCLUSIONS

CHAPTER VI

SUMMARY AND CONCLUSIONS

Industrialisation, specially after the Industrial Revolution in West European Countries, came to be recognised as a means of modern living. Thereupon a number of countries started making planned efforts towards attaining the objective of better ways of living. Industrial policies were evolved by various countries. The Industrial Policy of any nation is basically composed of two components - one is the philosophy of given society to shape industrial growth and the other is the implementation which gives practical shape to the philosophy of the society. The first component of industrial policy is the philosophy consists of an approach to and objectives of industrial development. It can broadly be classified into (i) Capitalist System (ii) Socialistic Approach and (iii) Mixed Economy Approach.

Pre-independence industrial policy in India was the conscious adoption of a mixed economy that represented, in general, the continuity of British and Pre-British tradition. The early industrial policy of the British Government has been aptly summed up by Vera Anstey as follows : 'It was thought inevitable that India should remain predominantly agricultural, whilst

the government wished to avoid both the active encouragement of industries (like the cotton mill industry) that competed with powerful English interests and increased State expenditure. Hence, even at the end of the nineteenth century, all that the government did, was to provide a certain amount of technical and industrial education and attempted to collect in industrial information'.

The First World War caused vulnerability to the Indian economy and the government resolved to examine the industrial policy. Lord Hardinge, on 26th November 1915, wrote to the Secretary of the State : 'It is becoming increasingly clear that a definite and self-conscious policy of improving the industrial capabilities of India will have to be pursued after the War. This led to the appointment of the Indian Industrial Commission in 1916.

The slow pace of industrialization was not upto the mark to face the grave challenges posed by the increasing population of the country and low per capita income. Infrastructure needed the pivotal concern of the policy makers. The National Government, after Independence in 1947, contemplated faster rates of growth of industrialisation. In doing so, the government of India, following Russian pattern of

development, took all such steps which brought all important economic activities under effective government control and regulation.

In terms of the IPR of 1956, the field for the operation of the private sector was confined to the unorganized small and tiny sector where individuals could engage themselves in petty shop keeping or trading and manufacturing on a very small-scale. For encouraging SSI Sector the Government reserved certain items which could be produced only by the small-scale sector.

The people of Asian, African and Latin American continents started their freedom movements in mid-twentieth century. The national movements in different countries had been educating the masses against the exploitation by the colonial powers as well as merits of socialistic pattern of society. The same philosophy was put forward by Indian leadership before the masses during its freedom struggle. All national leaders were ideologically convinced that it is only the Russian pattern of development which can bring about rapid industrial growth of the country and can successfully tackle with all problems of mass poverty, unemployment, etc. The leadership was also of the view, as in many other countries, that the State alone had the entrepre-

neurial ability to create such a dynamic sector in the core and infrastructural field as would boost up development of the whole economy.

Accumulation of capital was considered to be the route for accelerated growth and therefore major investments were directed towards capital intensive industries like, heavy industry, oil, mines, petroleum, heavy chemicals, and a host of other areas through planned programmes. This was legitimized through the Industrial Policy Resolution of 1956 in which the Private Sector was kept away from taking part in such major industrial activities.

This interventionist approach was also supported by the international aid agencies in one form or the other. Thus, the state intervention was not restricted to the creation of new assets in basic industrial activities only but it spread, in the form of nationalization, towards Financial Institutions, General Insurance, Coal Industries, a number of heavy and light engineering industries, jute industries and a host of others like, steel, minerals, metals, power and petroleum etc. While in most of the basic areas the State enjoyed monopoly, in other fields the stake of the State was heavy. The IPR of 1956 accorded commanding heights to the PSUs and the growth of

private sector was restricted, with strictest tariff measures. The growth of large industrial houses was restricted through the operations of MRTP Act 1969 and foreign equity participation was restricted to 40 per cent. The concept of mixed economy was allowed to function under stringent control and in conformity with plan objectives.

To provide large scale employment opportunities and make large quantities of consumer goods available, development of small scale industry was encouraged by reserving items for the SSI Sector, by providing price advantage and a number of other fiscal incentives. The overall industrial structure of the country was divided between the organized sector consisting of the Private and Public Sectors, with dominance of the latter and unorganized small scale industrial sector with a large number of items reserved for it.

The main contribution of the 1977 Indian Industrial Policy Statement was to expand the list of 180 items reserved for the SSI Sector to 807 items. It failed to impose a ban on multinationals or Indian big business houses to produce items of common consumption such as breads, biscuits, toffees, footwear, leather products etc. Further, the large industrial houses also did not relish the idea that such units would have to

rely on their internally generated resources for financing new projects or expansion of their existing units. This proved to be a big blow to them as they had built up their empires by using the funds provided by the financial institutions and banks. After three years in 1980, the Congress (I) Party dethroned the Janata Party which led to the announcement of the new Industrial Policy Statement in 1980.

In terms of the 1980 Industrial Policy Statement the task of raising the pillars of economic infrastructure in the country was entrusted to the public sector for reasons of its greater reliability, for the very large investments required and the longer gestation period of the projects crucial for economic development. It was guided merely by considerations of growth. It liberalized licensing for large and big business houses but by blurring the distinction between small scale and large scale industries it sought to promote the latter at the cost of the former. Broadly speaking, the Industrial policy choose a more capital-intensive path of development and thus, it underplayed the employment objective.

Upto the beginning of the 1980s a number of industrial policy statements were issued but, in fact, all of them contained special features of the IPR of

1956. It was only late Mr. Rajeev Gandhi who initiated some liberalization measures in 1985 which marked the beginning of liberalization of Indian economy. The end of 'Eighties' and beginning of the 'Nineties' witnessed the changes of so far reaching consequences, which, a few years back, no body could have even dreamt of. Disintegration of the Soviet Union, re-unification of two Germanies and giving up of the centralized planning by all the countries which were under earstwhile Russian influence giving way to the market orientation of their economies are but a few examples.

The upshot of the entire criticism of the 1990 Industrial policy was that whereas it aimed to promote small scale and agro-based industries, it did not provide adequate safeguards against encroachment by the large business houses and multinationals which grabbed the market share of small-scale sector in mass consumption goods and seriously jeopardised the employment generation of the SSI.

A sweeping change in the form of 'New Industrial Policy' was announced by Indian Government on July 24, 1991. The basic philosophy hidden behind this policy is summarized as 'continuity with change'. The government took a series of initiatives in respect of the policies related to the following areas :

(a) Industrial Licensing (b) Foreign Investment (c) Foreign Technology Agreement (d) Public Sector Policy (e) MRTP Act (f) Small and Tiny Sector. Later economic reforms include policy measures regarding location of industrial units, foreign direct investment, disinvestment of PSU shares, export and import, taxation and capital market.

The terms 'Public Sector', Public Enterprises' Government Undertakings', 'State-Owned Enterprises' and 'Public Undertakings' are used synonymously. In France, Public Enterprises mean industrial and commercial undertakings of the Government. In USA, Public Sector means all government agencies which are engaged in providing specific goods and services. In U.K. Public Corporations are the public enterprises, In Italy, Public Enterprises are those which are run either by local bodies or by State Government.

We have concentrated on the performance and problems of non-departmental undertakings of the Central Government which are named as industrial and commercial undertakings though they have entered the field of production and distribution of consumer goods as well.

The expansion of PSUs started from 1956 Industrial Policy Resolution. It was, indeed, the IPR

of 1956 which assigned the role of 'commanding heights' to the PSUs and continued to be considered as the 'Economic Constitution of India' and dominated the economic scense of the country atleast upto 1985 when late Mr. Rajeev Gandhi initiated the process of liberalization.

The worthwhileness of the PSUs had been a bone of contention from the very beginning. Some of the PSUs which earned huge profits were actually monopoly profits and due to inter government departmental transfers rather than their efficient performance in the real sense of term while the aggregate sum of money invested in them amounted to Rs. 1,78,628 crores as on march 31, 1996. Again with the poor record of performance Indian PSUs had practically covered all segments of the Indian economy leaving no room for the growth of private sector. Fortunately, with the dismemberment of the Soviet Union almost all the socialist countries said goodbye to the government management and control of Public Corporations and resorted to the market-oriented mechanism. The Government of India also, for the first time after independence, announced liberalization measures and integration of Indian economy with the world econcmy in July 1991.

The Department of Public Enterprises, set up in 1979, monitors half-yearly performance of PSUs based on flash results reported by them. It informs the Government about their consolidated performance so that early action could be taken for improving the performance of loss-making PSUs as well as other PSUs wherever needed. The Department's early warning system of reporting on performance has the twin objectives of (a) creating an awareness among the Public Enterprises to establish benchmarks for their own performance appraisal and (b) keeping the Government informed well in time of the state of affairs in the PSUs so that suitable corrective measures are taken when needed.

While commenting on the performance of any business organisation financial aspect comes to the fore. Though a number of PSUs are not business concerns in the strict sense of the term but their financial aspect cannot be ignored. In a mixed economy where private sector is also allowed to operate and compete with PSUs simultaneously. This aspect occupies all the more importance. Judging against this background, financial performance of a large number of PSUs has not only been not satisfactory but many of them have proved to be an utter failure.

Another factor for their profits is the export income from a number of developing countries to which these PSUs supply goods at much higher rates than the domestic prices. Except for these factors applicable only to many PSUs, the performance of other PSUs, in general, has been very dismal. To add fuel to the fire, Indian PSUs did not confine themselves strictly to the areas specified for them in the IPR of 1956. They entered the field of consumer goods and services and took over a large number of sick units which increased their losses. The government of India on July 24, 1991 made a clear-cut statement about the PSUs but the speed of liberalization is very slow.

The ratio of losses of loss-incurring PSUs to the profits of profit-making PSUs worked out at 73.0 in 1978-79 which declined to 70.4 in 1979-90. This situation was worst during the first year of the Sixth Five Year Plan as the ratio of losses of loss-making PSUs to profits of profit-making PSUs increased to 137.4. During the next two successive years of the plan the situation improved. However during 1983-1984 this situation again worsened and the afore-mentioned ratio became as high as 86.5. During Seventh Five Year Plan period, the PSUs faired well as the ratio of losses of

loss-incurring PSUs to the profits of profit-making PSUs came down from 58.0 to 34.1.

The afore-mentioned trend was quite healthy and should have been sustained. But unfortunately, a serious reversal of trend occurred during 1991-92 and this ratio again jumped to 61 per cent. With marginal improvement in 1992-93, this ratio has again jumped to 54.4 per cent in 1993-94. This is rather disappointing that nearly half of the total number of enterprises continue to incur losses year after year. The need of the hour is to make a case-by-case study of the enterprises so as to determine the factors responsible for the persisting situation so that remedial action can be initiated.

A very narrow range of profit-making PSUs account for bulk of the total net profit earned by them. During 1993-94, about 67 per cent of the net profit of profit-making enterprises (Rs. 9,722 crores) was contributed by Petroleum Rs. 3,948 crores (40.6%), Power Rs. 1,013 crores (10.4%), Financial Services Rs. 546 crores (5.6%), Telecommunications Rs. 520 crores (5.3%) and coal Rs. 511 crores (5.3%). Among the Principal loss-incurring enterprises were in the areas of textiles, consumer goods, engineering goods, fertilizers contract and consultancy services.

In the manufacturing sector except for Petroleum, power, minerals and metals, coal and lignite and only a few other manufacturing units, others have been resulting in constant financial losses to the government.

Gross profit ratio to capital employed serves as an invaluable clue to the pricing policy of an organisation in addition to serving as a useful means of verifying the accuracy of the trading results ascertained in respect of each accounting period. The gross profit to capital employed ratios show a divergent trend over the period. It means that the PSUs have not followed any consistent policy of gross margins.

After the implementation of a number of liberalisation measures, situation has radically changed even for those PSUs which had been earning profit mostly either because of their monopoly rights or undue government protection. Again, the years 1993-94 and 1994-95 were the boom years for the Indian economy as a whole. During these two years many of the loss-making undertaking have also shown profits. The situation for 1995-96 and 1996-97, for which the data are not available, will surely be quite different.

In order to be fair and objective it would be necessary to take into account the obligation of Public Enterprises which transcends the concepts of production and profits. Given that, the performance of public enterprises either at micro or at macro level, has to be evaluated keeping in view the contributions made by them in discharging their socio-economic obligations, development of backward regions, provision of public utility services, selling basic inputs or products at administered prices etc. There is no denying the fact that all this has been possible despite several handicaps from which Public Enterprises suffer such as locational disadvantages in some cases, very high initial disadvantages in some cases, very high initial capital investments in others, having to do with technology which was not necessarily among the best available, cost of learning and development and presence of a large number of sickunits taken over from the private sector etc.

The results of the foregoing planning pattern were, however, not encouraging. In majority of the cases the laid down targets could not be achieved. A number of projects could not be implemented on time causing significant cost overruns and the lack of satisfactory performance of the PSUs in generating adequate surpluses to plough back for sustained economic development created serious problems.

Under the circumstances, Government had no option but to borrow money from internal as well as external markets. To reduce such gaps year after year, the sources of soft loan, available earlier, dried up and most of the borrowing was available only on commercial terms. The intensity of debt burden can be imagined from the fact that it has gone up to the level of over Rupees 2,02,972 crores upto September 1992 and the internal burden exceeds at about Rupees 3,55,800 crores. It takes more than one-fourth of the GDP to service our external debt. The Government of India had no option but to tighten its belts on PSUs losses and non-essential expenditures simultaneously. International aid agencies have been pressing hard for structural adjustment in the economy so that the country may be able to pay its external debt without much difficulty.

Whatever happened in India, the same situation prevailed, with the difference of degree only, in a host of other countries. The failure of the perception of planned development gave way to market-oriented develop ment policy. The philosophy is gaining ground in developed as well as developing countries that the economies of the nations should be liberalised from Government Control, restrictions and regulations, to allow market forces to play their role in reshaping the

economy of a country. The U.K. during the last decade, with conservative rulers, successfully privatized a number of its Public Enterprises.

Convinced by its success, a number of countries from different continents have either started implementing privatization scheme as a measure of economic recovery or are committed to do so. It may also be mentioned here that dismemberment of earstwhile USSR has led all its allies to say good bye to the Government control of industrial licensing and to adopt market orientation of their economies so much so that the communist China has also opened the doors of its closed economy to international competition.

In India changes of far reaching consequences were taking place. On July 24, 1991, the Government of India declared New Industrial Policy wich opted for radical changes from the policy pursued until then. The NIP, in fact, scraped control through licensing, except in some strategic areas like defence, production of coal, petroleum, oil, drugs and a few luxurious items. It diluted the MRTP Act, 1969 to enable large industrial houses to invest their surpluses and enhance foreign equity participation from 40 per cent to 51 per cent, proposed divestiture of 20 percent of public shares in

some of the PSUs, announced deregulation of a large number industries to free them from the shackles of bureaucratic control, deserved a large number of items so far reserved for small scale industrial sector and opened its doors to the foreign firms to encourage competition. Considering the protective measures followed in the past four decades of development, these measures were really a good step. It invited a lot of criticism from different quarters, some of the people calling it a complete 'sale out' to the private sector while others supported the initiatives whole heartedly.

A number of developing countries, in many parts of the world, firstly under the influence of the earstwhile Soviet Union and later on that of China followed socialistic policies and took over the existing efficient and growing undertakings and setting up the new ones either as government monopolies or under the effective government control. All such countries spent huge public funds on the PSUs and some of them claimed to be the 'model employer' of huge working force.

With the passage of time all the PSUs in all the countries became inefficient because these countries reacted legislations favouring the work force. In the ultimate analysis, the governments lost millions and billions of dollars in the forms of not getting

adequate returns on the capital invested because of under-utilisation of capacities, strikes, manhours lost, low productivity, shrinkage in excise duty and tax income to the exchequer etc. Besides, the SOEs created structural distortions in the economies of a number of countries, leading to many crises. Involvement of political parties made things so complicated that almost all the SOEs, except for a few, for reasons explained elsewhere, became white elephants for their respective governments which ultimately placed them into private hands. Indeed, the process of privatisation has been crisis-driven all over the world though the reasons behind objectives to be attained and concern of the political parties in different countries have not been very much different.

The objectives of privatisation have been to attain optimum efficiency by removing various hurdles through competition for enhancing revenues for the governments, reducing budgetary deficits, widening ownership of economic assets and eliminating political interference.

This sweeping process has now emerged as one of the policy instruments internationally in more than fifty countries ranging over from industrialised nations

of the West, centrally planned economies of Eastern Europe, newly industrialised nations of Asia Pacific Region to the debt-ridden countries of Latin America, South Asian sub-continent including India, Pakistan, Sri Lanka, Bangladesh, Nepal and a host of other Third World Countries.

Just as the main concerns of policy makers, their objectives and the reasons behind privatization have differed from country to country, the modes of privatization have also varied from country to country.

Although privatization seems to have been gaining world-wide recognition as many countries of the world have implemented rigorous reform programmes of liberalization, delicensing and privatization of PSUs no uniform definition of the world 'Privatization' appears to exist. The term has been so widely and variedly used that it conveys different meanings from case to case and country to country. It is to be understood not merely in the substantive sense of how far the operations of an enterprise are brought within the description of market forces.

In strict sense of the term, privatization is specifically defined as the government-initiated transfer of assets, operations, rights and activities

from the public to the private sector through a variety of means. On the other hand, the divestiture of small equity stakes to private sector investors or the sale of shares to mutual funds or other institutions controlled by the government without any significant change in the level of government control or managerial freedom does not constitute privatization. But the process does include contracting out to the private sector those services which had, historically, been performed by the public sector and the provision and financing of new infrastructure projects.

To facilitate sector-wise comparisons an achievement rating was derived from the four criteria, evaluated on a five-point scale where 1 stood for completely regulated and 5 for completely competitive. The four critical factors considered were : (i) Market Structure : Are there barriers to entry? Are prices State-controlled? (iii) Ownership: what is the level of private ownership in the public sector? (iii) Management: What is the level of freedom the managers of the PSU enjoy? (iv) Financial : What is the level of freedom the PSU has in terms of raising funds?

The foregoing privatization paradigms indicate towards the fact that what was been happening in India over the last five years can only be described as creeping privatization, with pieces of state monopoly

being liberalised from time to time. During the four rounds of disinvestment that has taken place since 1992, it has auctioned off only 0.65 per cent of Government's investments in the public sector and has realised a meagre amount of $ 3 billion only, through C. Rangarajan Committee appointed by the Government had recommended, as early as in 1992, that the Government's share in the PSUs be brought down to less than 51 per cent. It means that the government never seems to have made up its mind on the subject.

As a matter of fact privatization reform programmes require strong political will and preparedness and specific timescales on the part of the government of a country. Unfortunately, in India, these things are lacking. But, half hearted measures will not do. Thailand, for example, which undertook privatization task long ago has failed only because of lukewarm measures adopted by it. In India, whatever has been done so far is not, in fact, privatization as it has not brought about any significant change either in ownership pattern or management freedoms which are necessary if privatization programme is to succeed in the country.

It will not be proper to abruptly state that all public enterprises have absolutely failed to achieve their designed objectives and thus recommend their

elimination at a stretch by privatising them. It has been rightly observed that on account of peculiar socio-political and economic environment and social systems some of the Public Enterprises are indispensible. Different environmental sets of the social system call for different techniques to be used for privatising the PSUs.

In Programme for structural Reforms submitted to the International Monetary Fund (IMF) on November 31, 1991 to secure its financial assistance for the ongoing process stated that India's severely constrained budgetary circumstances create both the need and opportunity for rationalising the scope of public sector activity and for placing greater reliance on the private sector for resource mobilization and investment. Public enterprises have absorbed large amounts of budgetary support for their expansion or operations, but in many cases they have failed to generate adequate returns on the investment of public money and contributed significantly to the public sector saving gap and fiscal deficit.

RBI made large drawings from the International Monetary Fund (IMF) which amounted to US $ 2.4 billion in July 1990 and January 1991. Even then there was a

sharp reduction in the foreign exchange reserve during 1990-91. As of July 1991, their level was at a little over US $ one billion which was barely sufficient to finance imports for a fortnight. As inflation accelerated to almost 14 per cent and foreign exchange reserves dwindled, international default by India seemed to be a real possibility. It was in this atmosphere of crisis that a newly elected government launched a programme of economic reforms in June 1991.

The Arjun Sengupta Committee, set up to review the Government policy for PSUs, divided the entire spectrum of PSUs into core and non-core sectors. The non-core sector enterprises were further sub-divided into financially viable and non-viable enterprises. The core sector included coal and lignite, crude oil, petroleum and natural gas, power, primary steel production, primary production of aluminium, copper lead, fine-nickle, fertilizers and primary production of petro-chemical intermediaries. The committee suggested closure of non-viable PEs in non-core sector. It recommended special studies of such enterprises in the core sector to put them back on rails.

The Government has been trying to rehabilitate workers affected by the industrial sickness. The Golden Handshake policy or Voluntary Retirement Scheme (VRS)

has been implemented in a large number of PSUs like Coal India, MAMC, FCI, MMTC, CCI, Heavy Engineering Corporation, Indian Oil Corporation, Calcutta Port Trust etc.

The result of VRS has been that young and skilled managers left the organization to join in private sector export-import houses as senior managers. The redundant staff at lower levels however, remained in their positions in PSUs. The introduction of the VRS was baseless. It was open to all and resulted in rapid depletion of technical and managerial cadres in PSUs. In other words, mostly cream workers of the organization were taken by private sector, leaving the public sector with employees whose opportunity cost in the market was lower than their present wage level. It is true that the entire NRF was used to finance the VRS only and even then it produced adverse effect on output and efficiency. It is, therefore, suggested that in future the entire fund should not be exhausted on VRS alone.

The origin of the automobile industry in India can be traced back to 1942, when Hindustan Motor Limited (HML) was established in Baroda. In 1949 the first partially manufactured car rolled out of the assembly line of the Hindustan Motors Limited. The establishment was followed by Premier Automobiles Limited (PAL) and

Standard Motor Products Limited (SMPL). Both of these car manufacturing units were set up in Bombay and Madras respectively.

Most of the manufacturing units started production in 1953-54. They were compelled to work at a loss as the small Indian market was, at that time, overflooded with the imported cars of various designs. Ashok Leyland and Tata Engineering and Locomotive Company (TELCO) too up the production of Heavy Commercial Vehicles in 1957 and in 1962 respectively while Mahindra and Mahindra was promoted in 1965 in the Jeep Line.

The late 'Eighties' witnessed breath-taking developments. During this period a number of automobile manufacturing units were set up which included, Hindustan Motors Limited, Maruti Udyog Limited, Swaraj Mazda Limited, D.C.M. Daewoo Motor Ltd. etc., for manufacturing of Light Commercial Vehicles, Heavy Commercial Vehicles and Two-Wheelers. It opened up a chapter in the history of Indian Automobile Industry.

Telco-the market leader in HCV-also commands 60 per cent of the Light Commercial Vehicle (LCVs) market, followed by Bajaj Tempo, which holds 22 per cent of the market its Matador brand. The remaining segment is shared betweed six other manufacturers, all of whom will be trying desparately to break Telco's monopoly.

In the international markets, the ratio of LCV to HCV is around 60:40 while in Indian market it is around 45:55 and therefore LCV segment is likely to grow the fastest. Scooters continue to dominate the market with as high as 46.8 per cent share. This is perhaps because it is considered to be a family vehicle. The remaining market is shared by motorcycles and mopeds.

During the 'Eighties' India became the seventh largest producer of automobiles and the industry is not only able to meet the country's requirement but also has some exportable surplus. With about 12 lakh vehicles of all types being manufactured every year in India, the country currently ranks ninth among the automobile manufacturing countries in the world. In the production of two wheelers, India stands second in the world after Japan.

The Maruti 800 model holds around 80 pe cent of the car segment in India and still has the privilege of having a waiting list of about two-to-three weeks despite a number of automobiles MNCs tropping into the Indian market.

In the very beginning, equity participation between government of India and SMC was decided 74 per cent and 26 per cent respectively. But during the 1990, the

equity shares of the SMC was raised form 26 per cent to 40 per cent. Legal Status of Maruti Udyog Limited has changed w.e.f. 20.06.1992 from a Government Company to a company without direct responsibility to the Government when Maruti alloted and issued 22,04,860 additional equity shares of Rs. 100 each to Suzuki Motor Corporation, Japan. With the aforesaid and issue allotment of shares to Suzuki, Government's equity has come down to less than 51 per cent in the total paid up capital of the company.

Three distinct segments are visible in the industry. The largest is the small car segment (approximately 60 per cent of industry sales) comprising a single manufacturer, Maruti, with its 800 CC car and Van priced around Rs. 0.2 million. The premier Padmini (From Premier Automobiles) and the Ambassador (from Hindustan Motors) make up the medium segment (below 20 per cent of industry sales) with a price range of between Rs. 0.2 to 0.3 million, followed by the luxury car segment priced at a over Rs.0.3 million.

Two companies manufacture Jeeps in the country. Mahindra & Mahindra (M&M) dominates with a market shares of 87.4 per cent followed by Maruti with share of 12.6 per cent. M&M's dominance in the Jeep market is attributed to its diesel powered vehicles.

As in any other industrial concerns, Board of Directors of MUL is the top administrative organ as well as the Supreme policy making body of the company. The directors hold responsibility for management.

The present size of MUL board is nine of which six are full time directors while three of them are part-time. The Chairman of the Board is appointed by the Government of India who also acts as part-time director of the company. Two other part-time directors are secretaries of the Ministry of Finance and Ministry of heavy Industry (Department of Public Enterprises) respectively.

Sale of vehicles by MUL increased from 2,75,411 in 1995-96 to 3,38,690 in 1996-97 showing an increase of 23 per cent. However, competition is on the increase and MUL cannot sit idle and be complacent on its past performance.

The estimated sales of Maruti Vehicles will increase to 3,75,717 vehicles in 2005 against 2,36,517 units in 1997. It means an increase of 58,854 per cent over the year 1997 and a growth rate of 5.958 per cent per annum. But with the passage of time the rate of growth of sales of Maruti Vehicles is likely to shrink though its figures of sales will increase year by year.

It will be due to the fact that with the induction of several new technologies, component suppliers are likely to face problems of standardisation. It will also be due to the fact that product quality could pose problem since very often production is depend on old and absolete plants bought from international suppliers There is also a possibility of domestic components being increasingly substituted by imported components.

When the production as well as sales both of MUL will marginally come down in the years to come, they will leave an adverse effect on profit also.In the ultimate analysis, MUL will have to face cut-throat competition from other international competitors who are likely to offer their fuel-efficient vehicles at more economical prices.

The personnel policy is one of the primary functions of an organisation's management. Its aim of purposeful and effective personnel policy is to create and maintain a committed and disciplined personnel for the organisation. Also its aim is to create wide opportunities for advancement within the organisation. By giving encouragement to good workers, by stimulating action in the recruits of basic grades and by motivating individuals to stay in the organisation for a long period, the personnel policy of MUL has been very

successful so far. The component parts of MUL's personnel policy are as follows :

The MUL acts upon the following principles for promotion:

(a) Promotion should be done solely on the basis of merit.

(b) Promotion is based on punctuality, efficiency and behaviour of the employee.

(c) Officers committee consisting of not less than three officers, recommends promotion of employees after analysing the performance by using performance appraisal form. In each case the committee should record in writing the grounds on which claims of person or persons if any, senior to be persons selected, were over looked.

So far, the MUL failed to achieve its indigenisation target. Low level of indigenisation is a major problem of the organisation and all other problems are adjoined directly or indirectly with indigenisation. The MUL, does not have command over the domestic ancillary industries to secure supplies of components and equipments of reasonable equality. Indigenisation targets were not achieved by the company due to non-

supply of domestic parts in conformity with specifications.

The indigenous components due to their inaccuracy and indurability relatively to those of Japan adversely affect standard of products. The only remedy to eradicate this decline completely is to develop the entire auto-ancillary industry of the country. Plants, equipments and manufacturing methods must be selected as per international standards of performance for the establishment of such industry. Highly skilled employees must be selected and proper training facilities must be made available for all the employees so that they can perform their best. They should be taught how to deal with modern management system and achieve the quality. The sophistication of management at all levels should be enhanced. A morale boost up among the employees as a team member must be introduced.

The trend of MUL production has been varying up and down due to component shortages. It is, therefore, suggested that the MUL should keep necessary stocks for meeting the shortages in components in order to ensure scheduled supply. Of course, it will result in some extra cost to the company. But will result in some extra cost to the company. But definitely it will be less than the accumulated losses due to conveyor stoppages.

The government must reduce duties and taxes on imported machinery required for modernizing and developing the auto-ancillary industry. The government should also clear all those project which will not harm the country's foreign exchange position and the industry should be allowed to meet its foreign exchange by exporting its products.

A major achievement of the component or ancillary industry is that Indian entrepreneurs have made remarkable strides in product localisation. This import substitute-led model has today resulted in an industry output of Rs. 6,500 crores (1994) with an asset base of Rs. 2,800 crores and an employee force of nearly two lakhs. As regards quality levels of the industry, while a sea change has taken place with the advent of Maruti Udyog it is still a far cry from the expectations of the global players targetting India such as the Mercedes, the Ford and the Vokswagons. The extrapolated demands on the auto component industry would mean a turnover of about Rs. 20,000 crores by the year 2000 with a capital outlay of around Rs. 9,000 crores. According to the Automotive Component Manufacturers Association (ACMA), export of auto components industry is projected to increase to Rs. 18,000 million in 1999-2000.

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